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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2001  
or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-9861

**M&T BANK CORPORATION**

(Exact name of registrant as specified in its charter)

**New York**  
State or other jurisdiction of  
Incorporation or organization)

**16-0968385**  
(I.R.S. Employer  
Identification No.)

**One M & T Plaza**  
**Buffalo, New York**  
(Address of principal  
executive offices)

**14203**  
(Zip Code)

**(716) 842-5445**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Number of shares of the registrant's Common Stock, \$.50 par value, outstanding as of the close of business on October 31, 2001: 94,480,476 shares.

# M&T BANK CORPORATION

## FORM 10-Q

### For the Quarterly Period Ended September 30, 2001

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**M&T BANK CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET (Unaudited)**

|   |   | <b>September 30,<br/>2001</b> | <b>December 31,<br/>2000</b> |
|---|---|-------------------------------|------------------------------|
| <i>Dollars in thousands, except per share</i> |   |                               |                              |
| <b>Assets</b>                                 | Cash and due from banks   | \$ 784,664                    | 750,259                      |
|   | Money-market assets   |                               |                              |
|   | Interest-bearing deposits at banks  | 4,322                         | 3,102                        |
|   | Federal funds sold and agreements to resell securities  | 2,965                         | 17,261                       |
|   | Trading account   | 41,936                        | 37,431                       |
|   | Total money-market assets   | 49,223                        | 57,794                       |
|   | Investment securities   |                               |                              |
|   | Available for sale (cost: \$2,732,290 at September 30, 2001;<br>\$3,035,031 at December 31, 2000)   | 2,798,894                     | 3,034,304                    |
|   | Held to maturity (market value: \$115,823 at September 30, 2001;<br>\$77,959 at December 31, 2000)  | 114,909                       | 81,025                       |
|   | Other (market value: \$239,445 at September 30, 2001;<br>\$194,524 at December 31, 2000)  | 239,445                       | 194,524                      |
|   | Total investment securities   | 3,153,248                     | 3,309,853                    |
|   | Loans and leases  | 25,155,972                    | 22,970,314                   |
|   | Unearned discount   | (209,553)                     | (227,500)                    |
|   | Allowance for credit losses   | (412,728)                     | (374,703)                    |
|   | Loans and leases, net   | 24,533,691                    | 22,368,111                   |
|   | Premises and equipment  | 264,257                       | 257,975                      |
|   | Goodwill and core deposit intangible  | 1,316,941                     | 1,199,407                    |
|   | Accrued interest and other assets   | 1,037,034                     | 1,006,057                    |
|   | Total assets  | \$31,139,058                  | 28,949,456                   |
| <b>Liabilities</b>                            | Noninterest-bearing deposits  | \$ 3,545,722                  | 3,344,913                    |
|   | NOW accounts  | 917,671                       | 873,472                      |
|   | Savings deposits  | 7,316,608                     | 6,105,689                    |
|   | Time deposits   | 8,272,202                     | 9,664,088                    |
|   | Deposits at foreign office  | 469,734                       | 244,511                      |
|   | Total deposits  | 20,521,937                    | 20,232,673                   |
|   | Federal funds purchased and agreements to repurchase securities   | 2,710,439                     | 1,440,887                    |
|   | Other short-term borrowings   | 876,808                       | 631,937                      |
|   | Accrued interest and other liabilities  | 458,447                       | 528,958                      |
|   | Long-term borrowings  | 3,615,845                     | 3,414,516                    |
|   | Total liabilities   | 28,183,476                    | 26,248,971                   |
| <b>Stockholders' equity</b>                   | Preferred stock, \$1 par, 1,000,000 shares authorized,<br>none outstanding  | —                             | —                            |
|   | Common stock, \$.50 par, 150,000,000 shares authorized,<br>97,139,347 shares issued at September 30, 2001;<br>93,244,101 shares issued at December 31, 2000 | 48,570                        | 46,622                       |
|   | Common stock issuable, 131,400 shares at September 30, 2001;<br>88,543 shares at December 31, 2000  | 6,214                         | 4,077                        |
|   | Additional paid-in capital  | 1,105,008                     | 914,575                      |
|   | Retained earnings   | 1,939,472                     | 1,735,643                    |
|   | Accumulated other comprehensive income, net   | 42,750                        | (432)                        |
|   | Treasury stock — common, at cost — 2,515,202 shares at<br>September 30, 2001; none at December 31, 2000   | (186,432)                     | —                            |
|   | Total stockholders' equity  | 2,955,582                     | 2,700,485                    |
|   | Total liabilities and stockholders' equity  | \$31,139,058                  | 28,949,456                   |

M&T BANK CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF INCOME (Unaudited)**

| <i>In thousands, except per share</i> |  | <b>Three months ended September 30</b> |             | <b>Nine months ended September 30</b> |             |
|---------------------------------------|--|--|-------------|---------------------------------------|-------------|
|                                       |  | <b>2001</b>                            | <b>2000</b> | <b>2001</b>                           | <b>2000</b> |
| <b>Interest income</b>                | Loans and leases, including fees                       | \$472,328                              | 373,743     | \$1,446,895                           | 1,094,980   |
|                                       | Money-market assets                                    |  |             |                                       |             |
|                                       | Deposits at banks                                      | 29                                     | 20          | 95                                    | 44          |
|                                       | Federal funds sold and agreements to resell securities | 167                                    | 250         | 1,118                                 | 12,671      |
|                                       | Trading account  | 83                                     | 135         | 267                                   | 892         |
|                                       | Investment securities                                  |  |             |                                       |             |
|                                       | Fully taxable  | 43,663                                 | 44,989      | 143,104                               | 111,710     |
|                                       | Exempt from federal taxes                              | 5,699                                  | 2,743       | 18,693                                | 7,901       |
|                                       | Total interest income                                  | 521,969                                | 421,880     | 1,610,172                             | 1,228,198   |
| <b>Interest expense</b>               | NOW accounts   | 1,896                                  | 1,235       | 7,287                                 | 3,795       |
|                                       | Savings deposits                                       | 32,515                                 | 30,375      | 105,196                               | 92,868      |
|                                       | Time deposits  | 104,985                                | 103,107     | 365,894                               | 301,636     |
|                                       | Deposits at foreign office                             | 3,115                                  | 4,075       | 9,547                                 | 10,875      |
|                                       | Short-term borrowings                                  | 32,808                                 | 49,221      | 105,603                               | 131,206     |
|                                       | Long-term borrowings                                   | 52,355                                 | 31,609      | 163,221                               | 91,679      |
|                                       | Total interest expense                                 | 227,674                                | 219,622     | 756,748                               | 632,059     |
|                                       | <i>Net interest income</i>                             | 294,295                                | 202,258     | 853,424                               | 596,139     |
|                                       | Provision for credit losses                            | 28,000                                 | 9,000       | 70,500                                | 24,000      |
|                                       | Net interest income after provision for credit losses  | 266,295                                | 193,258     | 782,924                               | 572,139     |
| <b>Other income</b>                   | Mortgage banking revenues                              | 24,789                                 | 16,012      | 75,478                                | 45,543      |
|                                       | Service charges on deposit accounts                    | 37,000                                 | 21,764      | 105,847                               | 63,178      |
|                                       | Trust income   | 15,589                                 | 9,838       | 47,733                                | 29,579      |
|                                       | Brokerage services income                              | 9,489                                  | 7,177       | 28,969                                | 24,639      |
|                                       | Trading account and foreign exchange gains             | 223                                    | 1,062       | 2,591                                 | 1,575       |
|                                       | Gain on sales of bank investment securities            | 244                                    | —           | 1,873                                 | 26          |
|                                       | Other revenues from operations                         | 32,833                                 | 20,661      | 87,239                                | 57,354      |
|                                       | Total other income                                     | 120,167                                | 76,514      | 349,730                               | 221,894     |
| <b>Other expense</b>                  | Salaries and employee benefits                         | 109,250                                | 76,099      | 324,592                               | 229,738     |
|                                       | Equipment and net occupancy                            | 28,227                                 | 18,582      | 84,112                                | 54,284      |
|                                       | Printing, postage and supplies                         | 5,838                                  | 4,479       | 19,142                                | 13,195      |
|                                       | Amortization of goodwill and core deposit intangible   | 31,010                                 | 13,810      | 91,970                                | 42,320      |
|                                       | Other costs of operations                              | 61,869                                 | 40,989      | 184,191                               | 120,729     |
|                                       | Total other expense                                    | 236,194                                | 153,959     | 704,007                               | 460,266     |
|                                       | Income before taxes                                    | 150,268                                | 115,813     | 428,647                               | 333,767     |
|                                       | Income taxes   | 52,401                                 | 41,397      | 152,306                               | 119,578     |
|                                       | <i>Net income</i>                                      | \$ 97,867                              | 74,416      | \$ 276,341                            | 214,189     |
|                                       | Net income per common share                            |  |             |                                       |             |
|                                       | Basic  | \$ 1.02                                | .97         | \$ 2.87                               | 2.79        |
|                                       | Diluted  | .98                                    | .94         | 2.77                                  | 2.71        |
|                                       | Cash dividends per common share                        | \$ .25                                 | .125        | \$ .75                                | .375        |
|                                       | Average common shares outstanding                      |  |             |                                       |             |
|                                       | Basic  | 96,115                                 | 76,748      | 96,225                                | 76,830      |
|                                       | Diluted  | 99,597                                 | 79,417      | 99,644                                | 79,171      |

M&T BANK CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)**

| <i>In thousands</i>   |  | Nine months ended September 30 |                  |
|---|--|--------------------------------|------------------|
|   |  | 2001                           | 2000             |
| Cash flows from operating activities                                | Net income   | \$ 276,341                     | 214,189          |
|   | Adjustments to reconcile net income to net cash provided by operating activities |                                |                  |
|   | Provision for credit losses  | 70,500                         | 24,000           |
|   | Depreciation and amortization of premises and equipment                          | 31,096                         | 20,759           |
|   | Amortization of capitalized servicing rights                                     | 23,200                         | 17,311           |
|   | Amortization of goodwill and core deposit intangible                             | 91,970                         | 42,320           |
|   | Provision for deferred income taxes  | (20,655)                       | (13,714)         |
|   | Asset write-downs  | 1,010                          | 1,394            |
|   | Net (gain) loss on sales of assets   | (2,102)                        | 2,964            |
|   | Net change in accrued interest receivable, payable                               | (7,471)                        | (1,438)          |
|   | Net change in other accrued income and expense                                   | (26,688)                       | (4,089)          |
|   | Net change in loans held for sale  | (265,572)                      | (25,809)         |
|   | Net change in trading account assets and liabilities                             | 3,883                          | (8,129)          |
|   | <b>Net cash provided by operating activities</b>                                 | <b>175,512</b>                 | <b>269,758</b>   |
| Cash flows from investing activities                                | Proceeds from sales of investment securities                                     |                                |                  |
|   | Available for sale   | 380,507                        | 112,288          |
|   | Other  | —                              | 20,052           |
|   | Proceeds from maturities of investment securities                                |                                |                  |
|   | Available for sale   | 671,427                        | 281,615          |
|   | Held to maturity   | 49,145                         | 47,988           |
|   | Purchases of investment securities   |                                |                  |
|   | Available for sale   | (326,282)                      | (289,758)        |
|   | Held to maturity   | (62,630)                       | (46,902)         |
|   | Other  | (36,190)                       | (20,498)         |
|   | Additions to capitalized servicing rights  | (29,570)                       | (22,709)         |
|   | Net increase in loans and leases   | (988,398)                      | (947,161)        |
|   | Capital expenditures, net  | (16,345)                       | (11,290)         |
|   | Acquisitions, net of cash acquired:  |                                |                  |
|   | Banks and bank holding companies   | (59,247)                       | —                |
|   | Other companies  | —                              | (4,303)          |
|   | Purchases of bank owned life insurance   | —                              | (35,000)         |
|   | Other, net   | (836)                          | 123              |
|   | <b>Net cash used by investing activities</b>                                     | <b>(418,419)</b>               | <b>(915,555)</b> |
| Cash flows from financing activities                                | Net decrease in deposits   | (1,099,453)                    | (691,050)        |
|   | Net increase (decrease) in short-term borrowings                                 | 1,479,112                      | 719,166          |
|   | Proceeds from long-term borrowings   | 475,451                        | 51,246           |
|   | Payments on long-term borrowings   | (305,186)                      | (32,247)         |
|   | Purchases of treasury stock  | (242,841)                      | (54,947)         |
|   | Dividends paid — common  | (72,399)                       | (28,746)         |
|   | Other, net   | 28,332                         | 9,403            |
|   | <b>Net cash provided (used) by financing activities</b>                          | <b>263,016</b>                 | <b>(27,175)</b>  |
|   | Net increase (decrease) in cash and cash equivalents                             | \$ 20,109                      | (672,972)        |
|   | Cash and cash equivalents at beginning of period                                 | 767,520                        | 1,236,310        |
|   | Cash and cash equivalents at end of period                                       | \$ 787,629                     | 563,338          |
| Supplemental disclosure of cash flow information                    | Interest received during the period  | \$ 1,632,665                   | 1,210,934        |
|   | Interest paid during the period  | 789,798                        | 612,882          |
|   | Income taxes paid during the period  | 147,972                        | 110,767          |
| Supplemental schedule of noncash investing and financing activities | Real estate acquired in settlement of loans                                      | \$ 9,981                       | 9,453            |
|   | Acquisition of banks and bank holding companies:                                 |                                |                  |
|   | Common stock issued  | 169,270                        | —                |
|   | Fair value of:   |                                |                  |
|   | Assets acquired (noncash)  | 1,674,360                      | —                |
|   | Liabilities assumed  | 1,461,449                      | —                |
|   | Stock options  | 6,646                          | —                |
|   | Securitization of residential mortgage loans allocated to:                       |                                |                  |
|   | Available for sale investment securities   | —                              | 1,018,216        |
|   | Capitalized servicing rights   | —                              | 14,282           |

M&T BANK CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)**

| <i>In thousands, except per share</i>  | Preferred stock | Common stock | Common stock issuable | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income, net | Treasury stock | Total       |
|--|-----------------|--------------|-----------------------|----------------------------|-------------------|---|----------------|-------------|
| <b>2000</b>  |                 |              |                       |                            |                   |   |                |             |
| Balance — January 1, 2000  | \$ —            | 40,508       | 3,937                 | 458,729                    | 1,501,530         | (26,047)                                    | (181,611)      | \$1,797,046 |
| Comprehensive income:  |                 |              |                       |                            |                   |   |                |             |
| Net income   | —               | —            | —                     | —                          | 214,189           | —   | —              | 214,189     |
| Other comprehensive income, net of tax:  |                 |              |                       |                            |                   |   |                |             |
| Unrealized losses on investment securities, net of reclassification adjustment | —               | —            | —                     | —                          | —                 | (6,329)                                     | —              | (6,329)     |
|  |                 |              |                       |                            |                   |   |                | 207,860     |
| Purchases of treasury stock  | —               | —            | —                     | —                          | —                 | —   | (54,947)       | (54,947)    |
| Stock-based compensation plans:  |                 |              |                       |                            |                   |   |                |             |
| Exercise of stock options  | —               | —            | —                     | (23,145)                   | —                 | —   | 40,758         | 17,613      |
| Directors' stock plan  | —               | —            | —                     | (17)                       | —                 | —   | 260            | 243         |
| Deferred compensation plans, net, including dividend equivalents               | —               | —            | 161                   | (5)                        | (33)              | —   | 377            | 500         |
| Common stock cash dividends — \$.375 per share                                 | —               | —            | —                     | —                          | (28,746)          | —   | —              | (28,746)    |
| Balance — September 30, 2000   | \$ —            | 40,508       | 4,098                 | 435,562                    | 1,686,940         | (32,376)                                    | (195,163)      | \$1,939,569 |
| <b>2001</b>  |                 |              |                       |                            |                   |   |                |             |
| Balance — January 1, 2001  | \$ —            | 46,622       | 4,077                 | 914,575                    | 1,735,643         | (432)                                       | —              | \$2,700,485 |
| Comprehensive income:  |                 |              |                       |                            |                   |   |                |             |
| Net income   | —               | —            | —                     | —                          | 276,341           | —   | —              | 276,341     |
| Other comprehensive income, net of tax:  |                 |              |                       |                            |                   |   |                |             |
| Unrealized gains on investment securities, net of reclassification adjustment  | —               | —            | —                     | —                          | —                 | 43,589                                      | —              | 43,589      |
| Unrealized losses on cash flow hedge, net of reclassification adjustment       | —               | —            | —                     | —                          | —                 | (407)                                       | —              | (407)       |
|  |                 |              |                       |                            |                   |   |                | 319,523     |
| Purchases of treasury stock  | —               | —            | —                     | —                          | —                 | —   | (242,841)      | (242,841)   |
| Acquisition of Premier National Bancorp, Inc.:                                 |                 |              |                       |                            |                   |   |                |             |
| Common stock issued  | —               | 1,220        | —                     | 168,050                    | —                 | —   | —              | 169,270     |
| Fair value of stock options  | —               | —            | —                     | 6,646                      | —                 | —   | —              | 6,646       |
| Repayment of management stock ownership program receivable                     | —               | —            | —                     | 112                        | —                 | —   | —              | 112         |
| Stock-based compensation plans:  |                 |              |                       |                            |                   |   |                |             |
| Exercise of stock options  | —               | 722          | —                     | 15,189                     | —                 | —   | 55,960         | 71,871      |
| Directors' stock plan  | —               | 2            | —                     | 225                        | —                 | —   | 179            | 406         |
| Deferred compensation plans, net, including dividend equivalents               | —               | 4            | 2,137                 | 211                        | (113)             | —   | 270            | 2,509       |
| Common stock cash dividends — \$.75 per share                                  | —               | —            | —                     | —                          | (72,399)          | —   | —              | (72,399)    |
| Balance — September 30, 2001   | \$ —            | 48,570       | 6,214                 | 1,105,008                  | 1,939,472         | 42,750                                      | (186,432)      | \$2,955,582 |

**CONSOLIDATED SUMMARY OF CHANGES IN ALLOWANCE FOR CREDIT LOSSES (Unaudited)**

| <i>In thousands</i>                     | Nine months ended September 30 |          |
|---|--------------------------------|----------|
|   | 2001                           | 2000     |
| Beginning balance                       | \$374,703                      | 316,165  |
| Provision for credit losses             | 70,500                         | 24,000   |
| Allowance obtained through acquisitions | 22,112                         | —        |
| Net charge-offs                         |                                |          |
| Charge-offs                             | (69,228)                       | (27,886) |
| Recoveries                              | 14,641                         | 11,034   |
| Total net charge-offs                   | (54,587)                       | (16,852) |
| Ending balance                          | \$412,728                      | 323,313  |

## NOTES TO FINANCIAL STATEMENTS

### 1. Significant accounting policies

The consolidated financial statements of M&T Bank Corporation (“M&T”) and subsidiaries (“the Company”) were compiled in accordance with the accounting policies set forth in note 1 of Notes to Financial Statements included in the Company’s 2000 Annual Report, except as described below. In the opinion of management, all adjustments necessary for a fair presentation have been made and were all of a normal recurring nature.

### 2. Accounting for derivative instruments and hedging activities

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended. SFAS No. 133 established accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available for sale security, or a foreign currency denominated forecasted transaction.

Pursuant to SFAS No. 133, the accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. An entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity’s approach to managing risk.

The Company utilizes derivatives, as defined in SFAS No. 133, to hedge the exposure to changes in the fair value of a recognized asset or liability or an unrecognized commitment. The January 1, 2001 transition adjustment prescribed by SFAS No. 133 was not material to the Company’s consolidated financial position or its results of operations. As a result of adopting the provisions of SFAS No. 133, hedged residential real estate loans held for sale, commitments to originate loans for sale, and commitments to sell loans are now generally recorded in the consolidated balance sheet at estimated fair market value, rather than at the lower of aggregate cost or fair market value, which was the Company’s policy prior to January 1, 2001. As a result, included in mortgage banking revenues for the three-month and nine-month periods ended September 30, 2001 were increases in net unrealized pre-tax gains related to loans held for sale, commitments to originate loans for sale, and commitments to sell loans of approximately \$34 thousand (\$22 thousand net of applicable income taxes) and \$7.3 million (\$4.7 million net of applicable income taxes), respectively.

The Company utilizes interest rate swap agreements as part of the management of interest-rate risk to modify the repricing characteristics of certain portions of its portfolios of earning assets and interest-bearing liabilities. Of the Company’s \$561 million of currently existing interest rate swap agreements, \$461 million have been designated as fair value hedges and \$100 million have been designated as cash flow hedges. In a fair value hedge, the fair value of the derivative (the interest rate swap) and changes in the fair value of the hedged item are recorded in the Company’s balance sheet with the corresponding gain or loss being recognized in current earnings. The difference between changes in the fair value of interest rate swaps and the hedged items represents hedge ineffectiveness and is recorded in “Other revenues from operations” in the Company’s consolidated statement of income. In a cash flow hedge, the effective portion of the derivative’s gain or loss is initially recorded as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in “Other revenues from operations” immediately. The amount of

**2. Accounting for derivative instruments and hedging activities, continued**

hedge ineffectiveness of both fair value and cash flow hedges recognized during the three and nine-month periods ended September 30, 2001 was not material to the Company's results of operations. The estimated fair value of interest rate swaps designated as fair value hedges was approximately \$8.7 million at September 30, 2001. The fair value of such swaps was substantially offset by unrealized losses on the fair value of the hedged items. The estimated fair value of the interest rate swaps designated as cash flow hedges was a loss of approximately \$628 thousand at September 30, 2001. Net of applicable income taxes, such loss was approximately \$407 thousand and has been included in "Accumulated other comprehensive income, net" in the Company's consolidated balance sheet.

**3. Earnings per share**

The computations of basic earnings per share follow:

|   | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |         |
|---|------------------------------------|--------|-----------------------------------|---------|
|   | 2001                               | 2000   | 2001                              | 2000    |
|   | (in thousands, except per share)   |        |                                   |         |
| Income available to common stockholders:                              |                                    |        |                                   |         |
| Net income  | \$97,867                           | 74,416 | 276,341                           | 214,189 |
| Weighted-average shares outstanding (including common stock issuable) | 96,115                             | 76,748 | 96,225                            | 76,830  |
| Basic earnings per share  | \$ 1.02                            | .97    | 2.87                              | 2.79    |

The computations of diluted earnings per share follow:

|   | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |         |
|---|------------------------------------|--------|-----------------------------------|---------|
|   | 2001                               | 2000   | 2001                              | 2000    |
|   | (in thousands, except per share)   |        |                                   |         |
| Income available to common stockholders                           | \$97,867                           | 74,416 | 276,341                           | 214,189 |
| Weighted-average shares outstanding                               | 96,115                             | 76,748 | 96,225                            | 76,830  |
| Plus: incremental shares from assumed conversion of stock options | 3,482                              | 2,669  | 3,419                             | 2,341   |
| Adjusted weighted-average shares outstanding                      | 99,597                             | 79,417 | 99,644                            | 79,171  |
| Diluted earnings per share  | \$ .98                             | .94    | 2.77                              | 2.71    |

**4. Comprehensive income**

The following tables display the components of other comprehensive income:

|  | Nine months ended September 30, 2001 |                 |               |
|--|--------------------------------------|-----------------|---------------|
|  | Before-tax<br>amount                 | Income<br>taxes | Net           |
|  | (in thousands)                       |                 |               |
| Unrealized gains on investment securities:                         |                                      |                 |               |
| Unrealized holding gains during period                             | \$69,204                             | 24,466          | 44,738        |
| Less: reclassification adjustment for gains realized in net income | 1,873                                | 724             | 1,149         |
| Unrealized losses on cash flow hedge                               | (628)                                | (221)           | (407)         |
| Net unrealized gains   | <u>\$67,703</u>                      | <u>23,521</u>   | <u>43,182</u> |

|  | Nine months ended September 30, 2000 |                 |                |
|--|--------------------------------------|-----------------|----------------|
|  | Before-tax<br>amount                 | Income<br>taxes | Net            |
|  | (in thousands)                       |                 |                |
| Unrealized losses on investment securities:                        |                                      |                 |                |
| Unrealized holding losses during period                            | \$(10,670)                           | (4,357)         | (6,313)        |
| Less: reclassification adjustment for gains realized in net income | 26                                   | 10              | 16             |
| Net unrealized losses  | <u>\$(10,696)</u>                    | <u>(4,367)</u>  | <u>(6,329)</u> |

**5. Acquisition**

On February 9, 2001, M&T acquired Premier National Bancorp, Inc. ("Premier"), a bank holding company headquartered in Lagrangeville, New York. Following the merger, Premier National Bank, Premier's bank subsidiary, was merged into Manufacturers and Traders Trust Company ("M&T Bank"), M&T's principal bank subsidiary. Premier National Bank operated 34 banking offices in the mid-Hudson Valley region of New York State. After application of the election, allocation, and proration procedures contained in the merger agreement with Premier, M&T paid \$171 million in cash and issued 2,440,812 shares of M&T common stock in exchange for the Premier shares outstanding at the time of acquisition. In addition, based on the merger agreement and the exchange ratio provided therein, M&T converted outstanding and unexercised stock options granted by Premier into options to purchase 224,734 shares of M&T common stock. The purchase price was approximately \$347 million.

Acquired assets, loans and deposits of Premier on February 9, 2001 totaled approximately \$1.8 billion, \$1.0 billion and \$1.4 billion, respectively. The transaction has been accounted for using the purchase method of accounting and, accordingly, operations acquired from Premier have been included in the Company's financial results since the acquisition date. In connection with the acquisition, the Company recorded approximately \$179 million of goodwill and \$31 million of core deposit intangible. The goodwill is being amortized over twenty years using the straight-line method and the core deposit intangible is being amortized over seven years using an accelerated method.

The Company incurred expenses related to systems conversions and other costs of integrating and conforming acquired operations with and into the Company of

**5. Acquisition, continued**

approximately \$8.0 million (\$4.8 million net of applicable income taxes) during the first quarter and first nine months of 2001. Nonrecurring merger-related expenses incurred by the Company in connection with another acquisition during the three-month and nine-month periods ended September 30, 2000 were \$3.6 million (\$2.1 million net of applicable income taxes).

**6. Borrowings**

In 1997, M&T Capital Trust I (“Trust I”), M&T Capital Trust II (“Trust II”), and M&T Capital Trust III (“Trust III” and, together with Trust I and Trust II, the “Trusts”) issued \$310 million of preferred capital securities. Including the unamortized portion of a purchase accounting adjustment to reflect estimated fair value at the April 1, 1998 acquisition of the common securities of Trust III, the preferred capital securities had a financial statement carrying value of approximately \$318 million at September 30, 2001 and December 31, 2000.

Other than the following payment terms (and the redemption terms described below), the preferred capital securities issued by the Trusts (“Capital Securities”) are identical in all material respects:

| Trust     | Distribution Rate | Distribution Dates      |
|-----------|-------------------|-------------------------|
| Trust I   | 8.234%            | February 1 and August 1 |
| Trust II  | 8.277%            | June 1 and December 1   |
| Trust III | 9.25%             | February 1 and August 1 |

The common securities of Trust I and Trust II are wholly owned by M&T and the common securities of Trust III are wholly owned by Olympia Financial Corp. (“Olympia”), a wholly owned subsidiary of M&T. The common securities of each Trust (“Common Securities”) are the only class of each Trust’s securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the corresponding Trust and are classified in the Company’s consolidated balance sheet as long-term borrowings, with accumulated distributions on such securities included in interest expense. Under the Federal Reserve Board’s current risk-based capital guidelines, the Capital Securities are includable in the Company’s Tier 1 capital.

The proceeds from the issuances of the Capital Securities and Common Securities were used by the Trusts to purchase the following amounts of junior subordinated deferrable interest debentures (“Junior Subordinated Debentures”) of M&T in the case of Trust I and Trust II and Olympia in the case of Trust III:

| Trust     | Capital Securities | Common Securities | Junior Subordinated Debentures   |
|-----------|--------------------|-------------------|--|
| Trust I   | \$150 million      | \$4.64 million    | \$154.64 million aggregate liquidation amount of 8.234% Junior Subordinated Debentures due February 1, 2027. |
| Trust II  | \$100 million      | \$3.09 million    | \$103.09 million aggregate liquidation amount of 8.277% Junior Subordinated Debentures due June 1, 2027.     |
| Trust III | \$60 million       | \$1.856 million   | \$61.856 million aggregate liquidation amount of 9.25% Junior Subordinated Debentures due February 1, 2027.  |

## 6. Borrowing, continued

The Junior Subordinated Debentures represent the sole assets of each Trust and payments under the Junior Subordinated Debentures are the sole source of cash flow for each Trust.

Holders of the Capital Securities receive preferential cumulative cash distributions semi-annually on each distribution date at the stated distribution rate unless M&T, in the case of Trust I and Trust II, or Olympia, in the case of Trust III, exercises the right to extend the payment of interest on the Junior Subordinated Debentures for up to ten semi-annual periods, in which case payment of distributions on the respective Capital Securities will be deferred for a comparable period. During an extended interest period, M&T and/or Olympia may not pay dividends or distributions on, or repurchase, redeem or acquire any shares of the respective company's capital stock. The agreements governing the Capital Securities, in the aggregate, provide a full, irrevocable and unconditional guarantee by M&T in the case of Trust I and Trust II and Olympia in the case of Trust III of the payment of distributions on, the redemption of, and any liquidation distribution with respect to the Capital Securities. The obligations under such guarantee and the Capital Securities are subordinate and junior in right of payment to all senior indebtedness of M&T and Olympia.

The Capital Securities are mandatorily redeemable in whole, but not in part, upon repayment at the stated maturity dates of the Junior Subordinated Debentures or the earlier redemption of the Junior Subordinated Debentures in whole upon the occurrence of one or more events ("Events") set forth in the indentures relating to the Capital Securities, and in whole or in part at any time after the stated optional redemption dates (February 1, 2007 in the case of Trust I and Trust III, and June 1, 2007 in the case of Trust II) contemporaneously with the Company's optional redemption of the related Junior Subordinated Debentures in whole or in part. The Junior Subordinated Debentures are redeemable prior to their stated maturity dates at M&T's option in the case of Trust I and Trust II and at Olympia's option in the case of Trust III (i) on or after the stated optional redemption dates, in whole at any time or in part from time to time, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of one or more of the Events, in each case subject to possible regulatory approval. The redemption price of the Capital Securities upon their early redemption will be expressed as a percentage of the liquidation amount plus accumulated but unpaid distributions. In the case of Trust I, such percentage adjusts annually and ranges from 104.117% at February 1, 2007 to 100.412% for the annual period ending January 31, 2017, after which the percentage is 100%, subject to a make-whole amount if the early redemption occurs prior to February 1, 2007. In the case of Trust II, such percentage adjusts annually and ranges from 104.139% at June 1, 2007 to 100.414% for the annual period ending May 31, 2017, after which the percentage is 100%, subject to a make-whole amount if the early redemption occurs prior to June 1, 2007. In the case of Trust III, such percentage adjusts annually and ranges from 104.625% at February 1, 2007 to 100.463% for the annual period ending January 31, 2017, after which the percentage is 100%, subject to a make-whole amount if the early redemption occurs prior to February 1, 2007.

## 7. Segment information

Reportable segments have been determined based upon the Company's internal profitability reporting system, which is organized by strategic business units. Certain strategic business units have been combined for segment information reporting purposes where the nature of the products and services, the type of customer and the distribution of those products and services are similar. The reportable segments are Commercial Banking, Commercial Real Estate, Discretionary Portfolio, Residential Mortgage Banking and Retail Banking.

The financial information of the Company's segments was compiled utilizing the accounting policies described in note 19 to the Company's consolidated financial statements as of and for the year ended December 31, 2000. The management accounting policies and processes utilized in compiling segment financial

**7. Segment information, continued**

information are highly subjective and, unlike financial accounting, are not based on authoritative guidance similar to generally accepted accounting principles. As a result, the financial information of the reported segments is not necessarily comparable with similar information reported by other financial institutions. Information about the Company's segments is presented in the following tables.

| Three months ended September 30 |                   |                        |                   |                   |                        |                   |
|---------------------------------|-------------------|------------------------|-------------------|-------------------|------------------------|-------------------|
|                                 | 2001              |                        |                   | 2000              |                        |                   |
|                                 | Total revenues(a) | Inter-segment revenues | Net income (loss) | Total revenues(a) | Inter-segment revenues | Net income (loss) |
| (in thousands)                  |                   |                        |                   |                   |                        |                   |
| Commercial Banking              | \$ 70,287         | 145                    | 25,560            | 55,703            | 50                     | 24,684            |
| Commercial Real Estate          | 41,943            | 278                    | 21,554            | 33,551            | 196                    | 17,263            |
| Discretionary Portfolio         | 21,526            | 1046                   | 13,182            | 16,132            | (55)                   | 9,017             |
| Residential Mortgage Banking    | 54,004            | 11,817                 | 9,693             | 28,246            | 5,684                  | 2,929             |
| Retail Banking                  | 205,927           | 3,068                  | 50,905            | 141,913           | 2,080                  | 43,238            |
| All Other                       | 20,775            | (16,354)               | (23,027)          | 3,227             | (7,955)                | (22,715)          |
| <b>Total</b>                    | <b>\$414,462</b>  | <b>—</b>               | <b>97,867</b>     | <b>278,772</b>    | <b>—</b>               | <b>74,416</b>     |

| Nine months ended September 30 |                    |                        |                   |                   |                        |                   |
|--------------------------------|--------------------|------------------------|-------------------|-------------------|------------------------|-------------------|
|                                | 2001               |                        |                   | 2000              |                        |                   |
|                                | Total revenues(a)  | Inter-segment revenues | Net income (loss) | Total revenues(a) | Inter-segment revenues | Net income (loss) |
| (in thousands)                 |                    |                        |                   |                   |                        |                   |
| Commercial Banking             | \$ 210,763         | 461                    | 83,695            | 160,391           | 236                    | 69,656            |
| Commercial Real Estate         | 120,209            | 701                    | 61,964            | 100,982           | 586                    | 52,363            |
| Discretionary Portfolio        | 63,775             | 3,071                  | 37,948            | 46,128            | (223)                  | 25,059            |
| Residential Mortgage Banking   | 149,648            | 33,865                 | 29,352            | 79,314            | 16,688                 | 6,022             |
| Retail Banking                 | 613,344            | 9,018                  | 156,156           | 402,984           | 6,799                  | 114,160           |
| All Other                      | 45,415             | (47,116)               | (92,774)          | 28,234            | (24,086)               | (53,071)          |
| <b>Total</b>                   | <b>\$1,203,154</b> | <b>—</b>               | <b>276,341</b>    | <b>818,033</b>    | <b>—</b>               | <b>214,189</b>    |

- (a) Total revenues are comprised of net interest income and other income. Net interest income is the difference between taxable-equivalent interest earned on assets and interest paid on liabilities owned by a segment and a funding charge (credit) based on the Company's internal funds transfer pricing methodology. Segments are charged a cost to fund any assets (e.g.

**7. Segment information, continued**

loans) and are paid a funding credit for any funds provided (e.g. deposits). The taxable-equivalent adjustment aggregated \$4,257,000 and \$2,332,000 for the three-month periods ended September 2001 and 2000, respectively, and \$13,443,000 and \$6,788,000 for the nine-month periods ended September 2001 and 2000, respectively, and is eliminated in "All Other" total revenues. Intersegment revenues are included in total revenues of the reportable segments. The elimination of intersegment revenues is included in the determination of "All Other" total revenues.

|                              | Average total assets              |               |                                    |
|------------------------------|-----------------------------------|---------------|------------------------------------|
|                              | Nine months ended<br>September 30 |               | Year ended<br>December 31,<br>2000 |
|                              | 2001                              | 2000          |                                    |
|                              |                                   | (in millions) |                                    |
| Commercial Banking           | \$ 6,598                          | 4,933         | 5,274                              |
| Commercial Real Estate       | 5,657                             | 4,671         | 4,839                              |
| Discretionary Portfolio      | 7,393                             | 6,180         | 6,431                              |
| Residential Mortgage Banking | 1,292                             | 570           | 662                                |
| Retail Banking               | 7,891                             | 4,603         | 5,186                              |
| All Other                    | 1,844                             | 1,080         | 1,266                              |
| <b>Total</b>                 | <b>\$30,675</b>                   | <b>22,037</b> | <b>23,658</b>                      |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Overview

Net income of M&T Bank Corporation ("M&T") was \$97.9 million or \$.98 of diluted earnings per common share in the third quarter of 2001, increases of 32% and 4%, respectively, from the third quarter of 2000 when net income was \$74.4 million or \$.94 of diluted earnings per common share. During the second quarter of 2001, M&T's net income was \$94.8 million or \$.94 of diluted earnings per common share. Basic earnings per common share rose 5% to \$1.02 in the recent quarter from \$.97 in the year-earlier quarter and 4% from \$.98 earned in the second quarter of 2001. The after-tax impact of nonrecurring merger-related expenses associated with M&T's merger and acquisition activity described below was \$2.1 million or \$.03 of diluted and basic earnings per share in last year's third quarter. There were no similar expenses in the second or third quarters of 2001.

For the nine months ended September 30, 2001, net income totaled \$276.3 million or \$2.77 per diluted share, up 29% and 2%, respectively, from \$214.2 million or \$2.71 per diluted share during the first nine months of 2000. Basic earnings per share rose to \$2.87 in the first nine months of 2001 from \$2.79 in the corresponding 2000 period. Nonrecurring merger-related expenses reduced net income during this year's first three quarters by \$4.8 million (after tax-effect) and diluted and basic earnings per share by \$.05. Similar expenses during the corresponding period in 2000 lowered net income by \$2.1 million and diluted and basic earnings per share by \$.03.

Net income expressed as an annualized rate of return on average total assets for M&T and its consolidated subsidiaries ("the Company") in the third quarter of 2001 was 1.25%, compared with 1.36% in the similar quarter of 2000 and 1.23% in 2001's second quarter. The annualized rate of return on average common stockholders' equity was 12.93% in the recent quarter, compared with 15.64% in the year-earlier quarter and 12.61% in the second quarter of 2001. During the first nine months of 2001, the annualized rates of return on average assets and average common stockholders' equity were 1.20% and 12.47%, respectively, compared with 1.30% and 15.51%, respectively, in the corresponding 2000 period. Excluding the impact of merger-related expenses incurred in the first quarter of 2001, the annualized returns on average assets and average common equity were 1.23% and 12.69%, respectively, during the first nine months of 2001. On the same basis, the annualized returns on average assets and average common equity during the third quarter of 2000 were 1.40% and 16.09%, respectively, and during the first nine months of 2000 were 1.31% and 15.67%, respectively.

The tragic events of September 11, 2001 have had an impact on many individuals and businesses, and on specific real estate properties and industries. The Company's results of operations are affected by overall economic conditions, in general, and by economic conditions in market areas served by the Company, specifically. Approximately 15% of the Company's total loan portfolio as of September 30, 2001 was secured by commercial real estate properties in the New York City metropolitan area. However, less than 1% of total loans outstanding as of September 30, 2001 were secured by properties located in lower Manhattan. In connection with the events of September 11, 2001, the Company did not experience any significant losses or delinquencies in its portfolio of commercial real estate loans secured by properties in the New York City metropolitan area. The airline, hotel/leisure and insurance industries have also been significantly affected by the events of September 11, 2001. Loans and leases to these industries totaled approximately 3% of total loans outstanding at September 30, 2001. Additional information regarding loan losses incurred by the Company is included herein under the heading "Provision for Credit Losses."

On February 9, 2001, M&T acquired Premier National Bancorp, Inc. ("Premier"), a bank holding company headquartered in Lagrangeville, New York. Premier National Bank, Premier's bank subsidiary, was merged into

Manufacturers and Traders Trust Company (“M&T Bank”), M&T’s principal bank subsidiary, on that date. Premier National Bank operated 34 banking offices in the mid-Hudson Valley region of New York State. As of the merger date, assets acquired totaled approximately \$1.8 billion, including approximately \$1.0 billion of loans and leases, and liabilities assumed were approximately \$1.5 billion, including approximately \$1.4 billion of deposits. The acquisition has been accounted for using the purchase method of accounting and, accordingly, the operations acquired from Premier have been included in M&T’s financial results subsequent to the acquisition date. Premier’s stockholders received \$171 million in cash and 2,440,812 shares of M&T common stock in exchange for the Premier shares outstanding at the time of the acquisition. In connection with the acquisition, the Company recorded approximately \$210 million of goodwill and core deposit intangible.

On October 6, 2000, M&T completed the acquisition of Keystone Financial, Inc. (“Keystone”), a bank holding company headquartered in Harrisburg, Pennsylvania. Keystone Financial Bank, N.A., Keystone’s bank subsidiary, was merged into M&T Bank on that date. Keystone Financial Bank, N.A. operated banking offices in Pennsylvania, Maryland and West Virginia. The acquisition has been accounted for using the purchase method of accounting and, accordingly, the operations acquired from Keystone have been included in M&T’s financial results subsequent to the acquisition date. Keystone’s stockholders received \$375 million in cash and 15,900,292 shares of M&T common stock in exchange for the Keystone shares outstanding at the time of acquisition. As of the merger date, assets acquired totaled approximately \$7.4 billion and included \$4.8 billion of loans and leases and \$1.2 billion of investment securities, and liabilities assumed were approximately \$6.4 billion and included \$5.2 billion of deposits. The Company recorded approximately \$615 million of goodwill and core deposit intangible as a result of the Keystone acquisition.

In connection with the acquisitions described above, the Company incurred nonrecurring expenses related to systems conversions and other costs of integrating and conforming the acquired operations with and into the operations of M&T Bank. Nonrecurring expenses associated with the Premier and Keystone acquisitions totaled approximately \$8.0 million (\$4.8 million after-tax) during the first quarter and first nine months of 2001. Similar expenses during the third quarter and first nine months of 2000 totaled approximately \$3.6 million (\$2.1 million after-tax).

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended. SFAS No. 133 established accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available for sale security, or a foreign currency denominated forecasted transaction.

Pursuant to SFAS No. 133, the accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. An entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity’s approach to managing risk.

The January 1, 2001 transition adjustment prescribed by SFAS No. 133 was not material to the Company’s consolidated financial position or its results of operations. As a result of adopting the provisions of SFAS No. 133, hedged residential real estate loans held for sale, commitments to originate loans for sale, and commitments to sell loans are now generally recorded in the consolidated balance sheet at estimated fair market value, rather than at the lower of aggregate cost or fair market value, which was

the Company's policy prior to January 1, 2001. As a result, included in mortgage banking revenues in the third quarter of 2001 were increases in net unrealized pre-tax gains related to loans held for sale, commitments to originate loans for sale, and commitments to sell loans of approximately \$34 thousand (\$22 thousand after-tax), compared with \$1.4 million (\$.9 million after-tax) in the second quarter of 2001. For the nine months ended September 30, 2001, the net impact of SFAS No. 133 on mortgage banking revenues was approximately \$7.3 million (\$4.7 million after-tax). In general, such unrealized gains are reversed and subsequently recognized as realized gains as the loans are sold. The impact on the Company's results of operations resulting from the adoption of SFAS No. 133 as related to the Company's use of interest rate swaps to manage interest rate risk associated with other earning assets and interest-bearing liabilities was not significant.

## Cash Operating Results

M&T has accounted for substantially all of its business combinations using the purchase method of accounting, unlike many other banking companies. As a result, the Company had recorded intangible assets consisting predominately of goodwill and core deposit intangible totaling \$1.32 billion at September 30, 2001, \$1.20 billion at December 31, 2000 and \$611 million at September 30, 2000. Included in such intangible assets at September 30, 2001, December 31, 2000 and September 30, 2000 was goodwill of \$1.15 billion, \$1.02 billion and \$544 million, respectively. Charges for amortization of goodwill and core deposit intangible, after tax effect, were \$16.9 million (\$.17 per diluted share) and \$8.7 million (\$.09 per diluted share), respectively, during the third quarter of 2001, \$16.9 million (\$.17 per diluted share) and \$8.2 million (\$.08 per diluted share), respectively, during the second quarter of 2001, and \$49.6 million (\$.50 per diluted share) and \$25.0 million (\$.25 per diluted share), respectively, during 2001's first nine months. Similar charges were \$8.5 million (\$.11 per diluted share) and \$2.7 million (\$.03 per diluted share), respectively, during 2000's third quarter and \$25.8 million (\$.32 per diluted share) and \$8.4 million (\$.10 per diluted share), respectively, during the first nine months of 2000. Since the amortization of goodwill and core deposit intangible does not result in a cash expense, M&T believes that supplemental reporting of its operating results on a "cash" or "tangible" basis (which excludes the after-tax effect of amortization of goodwill and core deposit intangible and the related asset balances) represents a relevant measure of financial performance. The supplemental cash basis data presented herein do not exclude the effect of other non-cash operating expenses such as depreciation, provision for credit losses, or deferred income taxes associated with the results of operations. Unless noted otherwise, cash basis data do, however, exclude the after-tax impact of nonrecurring merger-related expenses associated with acquisitions.

Cash net income for the third quarter of 2001 was \$123.5 million, up 41% from \$87.8 million in the year-earlier quarter. Diluted cash earnings per share for the recent quarter were \$1.24, an increase of 12% from \$1.11 in the third quarter of 2000. Cash net income and diluted cash earnings per share were \$119.9 million and \$1.19, respectively, in the second 2001 quarter. For the first nine months of 2001, cash net income and diluted cash earnings per share were \$355.8 million and \$3.57, respectively, up 42% and 13%, respectively, from \$250.5 million and \$3.16 in the similar period of 2000.

Cash net income in 2001's third quarter represented an annualized rate of return on average tangible assets of 1.64%, equal to the year-earlier quarter and up from 1.62% in the second quarter of 2001. Cash return on average tangible common equity was an annualized 28.39% in the recently completed quarter, improved from 26.98% in the year-earlier quarter and 27.99% in the second quarter of 2001. Through the first three quarters of 2001, the annualized cash return on average tangible assets and average tangible common stockholders' equity was 1.62% and 28.19%, respectively, up from 1.56% and 27.13%, respectively, in the comparable 2000 period. Including the effect of nonrecurring merger-related expenses, the annualized cash returns on average tangible assets and average tangible common

stockholders' equity for the first nine months of 2001 were 1.60% and 27.80%, respectively. On the same basis, the annualized cash returns on average tangible assets for the third quarter and first nine months of 2000 were 1.60% and 1.55%, respectively, and the annualized cash returns on average tangible common stockholders' equity were 26.32% and 26.90%, respectively.

### Taxable-equivalent Net Interest Income

Taxable-equivalent net interest income rose 46% to \$298.6 million in the third quarter of 2001 from \$204.6 million in the year-earlier quarter. The improvement resulted from higher average loan balances outstanding and a widening of the Company's net interest spread, or the difference between the taxable-equivalent yield on earning assets and the rate paid on interest-bearing liabilities. Including the impact of loans obtained at the time of the acquisitions of Keystone and Premier, average loans and leases increased \$7.7 billion, or 45%, to \$24.8 billion in the third quarter of 2001 from \$17.2 billion in the corresponding quarter of 2000. Taxable-equivalent net interest income was \$291.9 million in the second quarter of 2001 when average loans and leases were \$24.5 billion. The rate of loan growth slowed from the second quarter to the third quarter of 2001 compared with prior quarters' growth, largely due to lower commercial loans outstanding. However, consumer loans and leases in the recent quarter were up 5% from the second quarter of 2001. Loans and leases obtained in the Keystone merger were \$4.8 billion on October 6, 2000 and included approximately \$1.2 billion of commercial loans, \$1.3 billion of commercial real estate loans, \$1.1 billion of residential real estate loans, and \$1.2 billion of consumer loans and leases. Loans obtained through the acquisition of Premier totaled \$994 million on February 9, 2001 and included \$127 million of commercial loans, \$317 million of commercial real estate loans, \$356 million of residential real estate loans, and \$194 million of consumer loans. The accompanying table summarizes quarterly changes in the major components of the loan and lease portfolio.

### AVERAGE LOANS AND LEASES

(net of unearned discount)

Dollars in millions

|                             | 3rd Qtr.<br>2001 | Percent increase<br>(decrease) from |                  |
|-----------------------------|------------------|-------------------------------------|------------------|
|                             |                  | 3rd Qtr.<br>2000                    | 2nd Qtr.<br>2001 |
| Commercial, financial, etc. | \$ 5,340         | 34%                                 | (1)%             |
| Real estate — commercial    | 9,322            | 36                                  | 1                |
| Real estate — consumer      | 5,336            | 74                                  | 1                |
| Consumer                    |                  |                                     |                  |
| Automobile                  | 2,190            | 62                                  | 7                |
| Home equity                 | 1,296            | 33                                  | 6                |
| Other                       | 1,347            | 45                                  | 3                |
| Total consumer              | 4,833            | 48                                  | 5                |
| <b>Total</b>                | <b>\$24,831</b>  | <b>45%</b>                          | <b>2%</b>        |

For the first three quarters of 2001, taxable-equivalent net interest income totaled \$866.9 million, an increase of 44% from \$602.9 million in the corresponding 2000 period. A 40% rise in average loans and leases of \$7.0 billion was the leading factor contributing to this improvement.

Investment securities averaged \$3.2 billion in the recent quarter, compared with \$2.9 billion and \$3.5 billion in the third quarter of 2000 and second quarter of 2001, respectively. The investment securities portfolio is largely comprised of residential mortgage-backed securities and collateralized mortgage obligations, commercial real estate mortgage-backed securities, and shorter-term U.S. Treasury notes. The Company has also invested in debt securities issued by municipalities and debt and preferred equity securities issued by government-sponsored agencies and certain financial institutions. When purchasing investment securities, the Company considers its overall interest-rate risk profile as well as the adequacy of expected returns relative to prepayment and other risks assumed. The Company

occasionally sells investment securities as a result of changes in interest rates and spreads, actual or anticipated prepayments, or credit risk associated with a particular security.

Money-market assets, which are comprised of interest-earning deposits at banks, interest-earning trading account assets, Federal funds sold and agreements to resell securities, averaged \$34 million in 2001's third quarter, little changed from \$32 million in the year-earlier quarter and \$31 million in the second quarter of 2001. In general, the size of the investment securities and money-market assets portfolios are influenced by such factors as demand for loans, which generally yield more than investment securities and money-market assets, ongoing repayments, the levels of deposits, and management of balance sheet size and resulting capital ratios.

As a result of the changes described herein, average earning assets increased 40% to \$28.1 billion in the third quarter of 2001 from \$20.1 billion in the corresponding 2000 quarter. Average earning assets were \$28.0 billion in the second 2001 quarter and aggregated \$27.7 billion and \$20.1 billion for the nine month periods ended September 30, 2001 and 2000, respectively.

The most significant source of funding to the Company is core deposits, which consist of noninterest-bearing deposits, interest-bearing transaction accounts, savings deposits and nonbrokered domestic time deposits under \$100,000. The Company's branch network is the principal source of core deposits, which generally carry lower interest rates than wholesale funds of comparable maturities. Core deposits include certificates of deposit under \$100,000 generated on a nationwide basis by M&T Bank, National Association ("M&T Bank, N.A."), a wholly owned subsidiary of M&T. Average core deposits totaled \$17.5 billion in the recent quarter, up from \$12.5 billion in the similar quarter of 2000, but down slightly from \$17.7 billion in the second quarter of 2001. Core deposits obtained in the Keystone and Premier transactions as of the respective acquisition dates were \$4.7 billion and \$1.2 billion, respectively. The accompanying table provides an analysis of quarterly changes in the components of average core deposits. The lower interest rate environment during the third quarter compared with the second quarter of this year has adversely impacted average time deposits less than \$100,000, which decreased 8%. For the nine months ended September 30, 2001 and 2000, core deposits averaged \$17.6 billion and \$12.5 billion, respectively.

#### AVERAGE CORE DEPOSITS

Dollars in millions

|                                   | 3rd Qtr.<br>2001 | Percent increase<br>(decrease) from |                  |
|-----------------------------------|------------------|-------------------------------------|------------------|
|                                   |                  | 3rd Qtr.<br>2000                    | 2nd Qtr.<br>2001 |
| NOW accounts                      | \$ 708           | 76%                                 | —%               |
| Savings deposits                  | 7,444            | 43                                  | 2                |
| Time deposits less than \$100,000 | 5,938            | 28                                  | (8)              |
| Noninterest-bearing deposits      | 3,384            | 52                                  | 4                |
| <b>Total</b>                      | <b>\$17,474</b>  | <b>40%</b>                          | <b>(1)%</b>      |

The Company also obtains funding through domestic time deposits of \$100,000 or more, deposits originated through M&T Bank's offshore branch office, and brokered certificates of deposit. Brokered deposits have been used as an alternative to short-term borrowings to lengthen the average maturity of interest-bearing liabilities. Brokered deposits averaged \$789 million during the recent quarter, compared with \$597 million and \$463 million in the third quarter of 2000 and the second quarter of 2001, respectively. At September 30, 2001, brokered deposits totaled \$978 million and had a weighted average remaining term to maturity of .78 years. Certain of the brokered deposits have provisions that allow early redemption. In connection with the Company's management of interest rate risk, interest rate swaps have been entered into under which the Company receives a fixed rate of interest and pays a variable rate and that have notional amounts and terms

substantially similar to the amounts and terms of certain of the brokered deposits. Additional amounts of brokered deposits may be solicited in the future depending on market conditions and the cost of funds available from alternative sources at the time.

In addition to deposits, the Company uses borrowings from banks, securities dealers, the Federal Home Loan Bank of New York and the Federal Home Loan Bank of Pittsburgh (together, the "FHLB"), and others as sources of funding. Short-term borrowings averaged \$3.6 billion in the recently completed quarter, \$3.0 billion in the third quarter of 2000 and \$3.5 billion in the second quarter of 2001. Long-term borrowings averaged \$3.7 billion in the third quarter of 2001, compared with \$1.8 billion and \$3.5 billion in the third quarter of 2000 and the second quarter of 2001, respectively. Included in average long-term borrowings were amounts borrowed from the FHLB totaling \$2.5 billion in the third quarter of 2001, compared with \$1.3 billion in the year-earlier quarter and \$2.3 billion in the second quarter of 2001. Also included in long-term borrowings were \$318 million of trust preferred securities issued in 1997. Further information regarding the trust preferred securities is provided in note 6 of Notes to Financial Statements. Average long-term borrowings also included subordinated capital notes of \$674 million in the third and second quarters of 2001, compared with \$175 million in the third quarter of 2000. In connection with the acquisitions of Keystone and Premier, M&T Bank issued \$500 million of 8% subordinated capital notes on October 5, 2000.

In addition to changes in the composition of the Company's earning assets and interest-bearing liabilities, net interest income can be impacted by changes in interest rates and spreads. During 2001, the Federal Reserve has taken actions to lower the level of interest rates. In general, such actions have resulted in a greater decline in short-term rates as compared with the decline in longer-term rates. The decline in short-term interest rates and the general steeping of the yield curve have had a positive effect on the Company's net interest spread. The rate paid on interest-bearing liabilities during the third quarter of 2001 was 3.71%, down from 5.00% in the corresponding quarter of 2000 and 4.16% during 2001's second quarter. In comparison, the yield on the Company's earning assets decreased to 7.43% in the recent quarter, from 8.40% in the year-earlier quarter and 7.80% in the second quarter of 2001. The impact of the more rapid repricing of interest-bearing liabilities than earning assets led to an increase in the net interest spread to 3.72% in 2001's third quarter from 3.40% in the corresponding 2000 quarter and 3.64% in the second quarter of 2001. For the first nine months of 2001, the net interest spread was 3.63%, up 22 basis points (hundredths of one percent) from 3.41% in the similar 2000 period. The yield on earning assets and the rate paid on interest-bearing liabilities was 7.84% and 4.21%, respectively, during the first nine months of 2001, compared with 8.22% and 4.81%, respectively, during the first nine months of 2000.

Net interest-free funds consist largely of noninterest-bearing demand deposits and stockholders' equity, partially offset by bank owned life insurance and non-earning assets, including goodwill and core deposit intangible. Average interest-free funds totaled \$3.8 billion in the recent quarter, up from \$2.6 billion a year earlier and \$3.6 billion in the second quarter of 2001. During the first nine months of 2001 and 2000, average net interest-free funds were \$3.6 billion and \$2.5 billion, respectively. Goodwill and core deposit intangible averaged \$1.3 billion and \$618 million during the third quarter of 2001 and 2000, respectively, and \$1.4 billion during the second quarter of 2001. The cash surrender value of bank owned life insurance averaged \$576 million and \$439 million in the third quarter of 2001 and 2000, respectively, and \$569 million in the second quarter of 2001. Tax-exempt income earned from increases in the cash surrender value of bank owned life insurance is not included in interest income, but rather is recorded in "other revenues from operations."

The contribution of net interest-free funds to net interest margin, or taxable-equivalent net interest income expressed as an annualized percentage of average earning assets, was .50% in the third quarter of 2001, compared

with .65% in the corresponding 2000 quarter and .54% in the second quarter of 2001. The lower contribution to net interest margin of net interest-free funds in the recent quarter was due largely to the continuing decline in the average rates paid on interest-bearing liabilities that were used to compute the value of such contribution. For the first nine months of the year, the contribution of net interest-free funds to net interest margin was .56% in 2001 and .60% in 2000.

Reflecting the changes described herein, the Company's net interest margin was 4.22% in 2001's third quarter, up 17 basis points from 4.05% in the third quarter of 2000 and 4 basis points higher than 4.18% in the second 2001 quarter. During the first nine months of 2001 and 2000, the net interest margin was 4.19% and 4.01%, respectively.

As part of the management of interest rate risk, the Company utilizes interest rate swap agreements to modify the repricing characteristics of certain portions of its portfolios of earning assets and interest-bearing liabilities. Periodic settlement amounts arising from these agreements are generally reflected in either the yields earned on assets or, as appropriate, the rates paid on interest-bearing liabilities. The notional amount of interest rate swap agreements entered into for interest rate risk management purposes as of September 30, 2001 and 2000 was \$561 million and \$532 million, respectively, \$456 million as of June 30, 2001 and \$534 million as of December 31, 2000. In general, under the terms of these swaps, the Company receives payments based on the outstanding notional amount of the swaps at fixed rates and makes payments at variable rates. However, under the terms of \$117 million of swaps, the Company pays a fixed rate of interest and receives a variable rate. In anticipation of the previously noted issuance of \$500 million of fixed-rate subordinated notes in October 2000, the Company terminated certain interest rate swap agreements in September 2000, including forward-starting swaps, with an aggregate notional amount of approximately \$421 million. Under the terms of the terminated swaps, the Company would have made fixed-rate payments and received variable-rate payments.

As previously discussed, the Company adopted SFAS No. 133 on January 1, 2001. As a result, \$461 million of the Company's interest rate swap agreements as of September 30, 2001 had been designated as fair value hedges and \$100 million have been designated as cash flow hedges. In a fair value hedge, the fair value of the derivative (the interest rate swap) and changes in the fair value of the hedged item are recorded in the Company's balance sheet with the corresponding gain or loss recognized in current earnings. The difference between changes in the fair value of the interest rate swaps and the hedged items represents hedge ineffectiveness and is recorded in "Other revenues from operations" in the Company's consolidated statement of income. In a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in "Other revenues from operations" immediately. The amount of hedge ineffectiveness of both fair value and cash flow hedges recognized in 2001 was not material to the Company's results of operations. The estimated fair value of interest rate swaps designated as fair value hedges was approximately \$9 million at September 30, 2001. The fair value of such swaps was substantially offset by unrealized losses on the fair value of the hedged items. The estimated fair value of the interest rate swaps designated as cash flow hedges was a loss of approximately \$628 thousand at September 30, 2001. Net of applicable income taxes, such loss was approximately \$407 thousand and has been included in "Accumulated other comprehensive income, net" in the Company's consolidated balance sheet. The changes in the fair values of the interest rate swaps and the hedged items result from the effects of changing interest rates. Prior to the adoption of SFAS No. 133, the fair value of interest rate swaps entered into for interest rate risk management purposes was not recorded in the Company's consolidated balance sheet. The unrecognized fair value associated with such interest rate swaps was a pre-tax loss of approximately \$4 million at September 30, 2000 and a pre-tax gain of approximately \$1 million at December 31, 2000.

The weighted average rates to be received and paid under interest rate swap agreements were 5.11% and 3.68%, respectively, at September 30, 2001. The average notional amounts of interest rate swaps and the related effect on net interest income and margin are presented in the accompanying table.

#### INTEREST RATE SWAPS

Dollars in thousands

|                            | Three months ended September 30 |        |           |        |
|----------------------------|---------------------------------|--------|-----------|--------|
|                            | 2001                            |        | 2000      |        |
|                            | Amount                          | Rate * | Amount    | Rate * |
| Increase (decrease) in:    |                                 |        |           |        |
| Interest income            | \$ (111)                        | —%     | \$ 45     | —%     |
| Interest expense           | (2,220)                         | (.04)  | 605       | .01    |
| Net interest income/margin | \$ 2,109                        | .03%   | \$ (560)  | (.01)% |
| Average notional amount ** | \$518,380                       |        | \$658,275 |        |

  

|                            | Nine months ended September 30 |        |           |        |
|----------------------------|--------------------------------|--------|-----------|--------|
|                            | 2001                           |        | 2000      |        |
|                            | Amount                         | Rate * | Amount    | Rate * |
| Increase (decrease) in:    |                                |        |           |        |
| Interest income            | \$ (206)                       | —%     | \$ 787    | .01%   |
| Interest expense           | (4,288)                        | (.02)  | 265       | —      |
| Net interest income/margin | \$ 4,082                       | .02%   | \$ 522    | —%     |
| Average notional amount ** | \$508,152                      |        | \$993,927 |        |

\* Computed as an annualized percentage of average earning assets or interest-bearing liabilities.

\*\* Excludes forward-starting interest rate swaps.

As a financial intermediary, the Company is exposed to various risks, including liquidity and market risk. Liquidity refers to the Company's ability to ensure that sufficient cash flow and liquid assets are available to satisfy demands for loans and deposit withdrawals, to fund operating costs, and to be used for other corporate purposes. Liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ. Deposits and borrowings, maturities of money-market assets and investment securities, repayments of loans and investment securities, and cash generated from operations, such as fees collected for services, provide the Company with sources of liquidity. M&T's banking subsidiaries have access to additional funding sources through FHLB borrowings, as well as other available borrowing facilities. M&T Bank's issuance of \$500 million of 8% subordinated capital notes in October 2000 provided liquidity and facilitated the acquisitions of Keystone and Premier. M&T's primary source of funds to pay for operating expenses, shareholder dividends and treasury stock repurchases has historically been the receipt of dividends from its banking subsidiaries, which are subject to various regulatory limitations. Dividends from any banking subsidiary to M&T are limited by the amount of earnings of the banking subsidiary in the current year and the two preceding years. For purposes of this test, at September 30, 2001 approximately \$479 million was available for payment of dividends to M&T from banking subsidiaries without prior regulatory approval. These historic sources of cash flows were augmented in 1997 by proceeds from the issuance of trust preferred securities. M&T also maintains a \$30 million line of credit with an unaffiliated commercial bank, all of which had been borrowed at September 30, 2001.

Management closely monitors the Company's liquidity position for compliance with internal policies and believes that available sources of liquidity are adequate to meet funding needs in the normal course of business. Furthermore, management does not anticipate engaging in any activities, either currently or in the long-term, which would cause a significant strain on liquidity at either M&T or its subsidiary banks.

Market risk is the risk of loss from adverse changes in market prices and/or interest rates of the Company's financial instruments. The primary market risk the Company is exposed to is interest rate risk. The core banking activities of lending and deposit-taking expose the Company to interest rate risk, which occurs when assets and liabilities reprice at different times as interest rates change. As a result, net interest income earned by the Company is subject to the effects of changing interest rates. The Company measures interest rate risk by calculating the variability of net interest income in future periods under various interest rate scenarios using projected balances for earning assets, interest-bearing liabilities and off-balance sheet financial instruments. Management's philosophy toward interest rate risk management is to limit the variability of net interest income. The balances of both on- and off-balance sheet financial instruments used in the projections are based on expected growth from forecasted business opportunities, anticipated prepayments of mortgage-related assets and expected maturities of investment securities, loans and deposits. Management supplements the modeling technique described above with analyses of market values of the Company's financial instruments.

The Company's Asset-Liability Committee, which includes members of senior management, monitors the Company's interest rate sensitivity with the aid of a computer model that considers the impact of ongoing lending and deposit gathering activities, as well as statistically derived interrelationships in the magnitude and timing of the repricing of financial instruments, including the effect of changing interest rates on expected prepayments and maturities. When deemed prudent, management has taken actions, and intends to do so in the future, to mitigate exposure to interest rate risk through the use of on- or off-balance sheet financial instruments. Possible actions include, but are not limited to, changes in the pricing of loan and deposit products, modifying the composition of earning assets and interest-bearing liabilities, and entering into, modifying or terminating interest rate swap agreements.

The accompanying table as of September 30, 2001 and December 31, 2000 displays the estimated impact on projected net interest income from non-trading financial instruments resulting from changes in interest rates during the first modeling year.

#### SENSITIVITY OF NET INTEREST INCOME TO CHANGES IN INTEREST RATES

Dollars in thousands

| Changes in Interest Rates | Calculated increase (decrease)<br>in projected net interest income |                   |
|---------------------------|--|-------------------|
|                           | September 30, 2001   | December 31, 2000 |
| +200 basis points         | \$ 4,765   | 6,040             |
| +100 basis points         | 509  | (5,471)           |
| -100 basis points         | (7,123)  | (12,494)          |
| -200 basis points         | (6,701)  | (14,878)          |

Many assumptions were utilized by the Company to calculate the impact that changes in interest rates may have on net interest income. The more significant assumptions related to the rate of prepayments of mortgage-related assets, cash flows from derivative and other financial instruments held for non-trading purposes, loan and deposit volumes and pricing, and deposit maturities. The Company also assumed gradual changes in interest rates of 100 and 200 basis points up and down during a twelve-month period. These assumptions are inherently uncertain and, as a result, the Company cannot precisely predict the impact of changes in interest rates on net interest income. Actual results may differ significantly due to the timing, magnitude and frequency of interest rate changes and changes in market conditions, as well as any actions, such as those previously described, which management may take to counter such changes.

The Company engages in trading activities to meet the financial needs of customers and to profit from perceived market opportunities. Financial instruments utilized in trading activities have included forward and futures contracts related to foreign currencies and mortgage-backed securities, U.S. Treasury and other government securities, mortgage-backed securities and

interest rate contracts, such as swaps. The Company generally mitigates the foreign currency and interest rate risk associated with trading activities by entering into offsetting trading positions. The amounts of gross and net trading positions as well as the type of trading activities conducted by the Company are subject to a well-defined series of potential loss exposure limits established by the Asset-Liability Committee.

The notional amounts of interest rate and foreign currency and other option and futures contracts totaled \$1.1 billion and \$269 million, respectively, at September 30, 2001, \$770 million and \$379 million, respectively, at September 30, 2000, and \$769 million and \$293 million, respectively, at December 31, 2000. The notional amounts of these trading contracts are not recorded in the consolidated balance sheet. However, the fair values of all financial instruments used for trading activities are recorded in the consolidated balance sheet. The fair values of all trading account assets and liabilities were \$42 million and \$31 million, respectively, at September 30, 2001, \$41 million and \$25 million, respectively, at September 30, 2000, and \$37 million and \$22 million, respectively, at December 31, 2000. Given the Company's policies, limits and positions, management believes that the potential loss exposure to the Company resulting from market risk associated with trading activities was not material.

### Provision for Credit Losses

A provision for credit losses is recorded to adjust the Company's allowance for credit losses to a level that is adequate to absorb losses inherent in the loan and lease portfolio. The provision for credit losses in the third quarter of 2001 was \$28.0 million, up from \$9.0 million in the corresponding quarter of 2000 and \$24.0 million in the second quarter of 2001. Reflecting general weakness in the U.S. economy, net loan charge-offs rose to \$23.8 million in the recent quarter from \$5.9 million in the year-earlier quarter and \$14.9 million in the second quarter of 2001. Net charge-offs as an annualized percentage of average loans and leases were .38% in the third quarter of 2001, compared with .14% in the corresponding 2000 quarter and .24% in the second 2001 quarter. For the nine months ended September 30, 2001 and 2000, the provision for credit losses was \$70.5 million and \$24.0 million, respectively. Through September 30, net charge-offs were \$54.6 million in 2001 and \$16.9 million in 2000, representing an annualized .30% and .13%, respectively, of average loans and leases. As previously noted, the Company did not experience any charge-offs or delinquencies in its portfolio of commercial real estate loans secured by properties in the New York City metropolitan area that were directly related to the events of September 11, 2001. A summary of net charge-offs by loan type is presented below.

#### NET CHARGE-OFFS (RECOVERIES)

##### BY LOAN/LEASE TYPE

In thousands

|                             | 2001            |               |               |               |
|-----------------------------|-----------------|---------------|---------------|---------------|
|                             | 1st Qtr.        | 2nd Qtr.      | 3rd Qtr.      | Year-to-date  |
| Commercial, financial, etc. | \$ 2,135        | 6,004         | 14,025        | 22,164        |
| Real estate:                |                 |               |               |               |
| Commercial                  | 4,066           | 132           | 43            | 4,241         |
| Residential                 | 1,505           | 1,874         | 1,513         | 4,892         |
| Consumer                    | 8,197           | 6,896         | 8,197         | 23,290        |
|                             | <u>\$15,903</u> | <u>14,906</u> | <u>23,778</u> | <u>54,587</u> |
|                             |                 |               |               |               |
|                             | 2000            |               |               |               |
|                             | 1st Qtr.        | 2nd Qtr.      | 3rd Qtr.      | Year-to-date  |
| Commercial, financial, etc. | \$1,419         | 195           | 1,650         | 3,264         |
| Real estate:                |                 |               |               |               |
| Commercial                  | (412)           | (778)         | (405)         | (1,595)       |
| Residential                 | 1,046           | 1,426         | 847           | 3,319         |
| Consumer                    | 4,517           | 3,587         | 3,760         | 11,864        |
|                             | <u>\$6,570</u>  | <u>4,430</u>  | <u>5,852</u>  | <u>16,852</u> |

Nonperforming loans, which consist of nonaccrual and restructured loans, rose to \$197.5 million or .79% of total loans and leases outstanding at September 30, 2001 from \$61.8 million or .36% at September 30, 2000, \$110.6 million or .49% at December 31, 2000, and \$161.6 million or .65% at June 30, 2001. The higher levels of nonperforming loans in 2001 provide further evidence of a weakened economy, nationally and in the markets directly served by the Company. The increase in nonperforming loans during the third quarter of 2001 resulted largely from the addition of one commercial loan for \$26 million. Nonperforming loans obtained in the acquisition of Keystone were \$59 million at September 30, 2001 and June 30, 2001, and \$43 million at December 31, 2000. Nonperforming loans obtained in the acquisition of Premier were \$7 million and \$5 million at September 30 and June 30, 2001, respectively. No loans were reported as nonperforming at the recent quarter-end as a direct result of the events of September 11, 2001.

Commercial loans and leases classified as nonperforming aggregated \$88.1 million at September 30, 2001, \$19.1 million at September 30, 2000, \$25.5 million at December 31, 2000 and \$60.6 million at June 30, 2001. Commercial loans acquired in the Keystone merger that were classified as nonperforming at September 30, 2001 totaled \$12.2 million, compared with \$10.3 million and \$12.7 million at June 30, 2001 and December 31, 2000, respectively.

Nonperforming commercial real estate loans totaled \$39.4 million at September 30, 2001, \$10.6 million at September 30, 2000, \$37.0 million at December 31, 2000, and \$40.7 million at June 30, 2001. Commercial real estate loans acquired in the Keystone merger that were classified as nonperforming at September 30, 2001 totaled \$29.7 million, compared with \$28.7 million and \$23.0 million at June 30, 2001 and December 31, 2000, respectively. Nonperforming commercial real estate loans obtained in the Premier transaction totaled \$2.2 million and \$1.9 million at September 30 and June 30, 2001, respectively.

Nonperforming residential real estate loans totaled \$45.4 million and \$23.4 million at September 30, 2001 and 2000, respectively, \$36.0 million at December 31, 2000, and \$39.2 million at June 30, 2001.

Nonperforming consumer loans and leases totaled \$24.6 million at September 30, 2001, compared with \$8.7 million at September 30, 2000, \$12.1 million at December 31, 2000, and \$21.1 million at June 30, 2001. As a percentage of consumer loan balances outstanding, nonperforming consumer loans and leases were .49% at September 30, 2001, .26% at September 30, 2000, .29% at December 31, 2000 and .45% at June 30, 2001. During the first quarter of 2001, the Company began classifying non-guaranteed consumer loans and leases past due 90 days or more as nonaccrual. Previously, such loans accrued interest until the loan balances were charged off. The change in classification did not have a material effect on the Company's results of operations or its financial condition.

Accruing loans past due 90 days or more, largely comprised of residential real estate loans, aggregated \$137.5 million or .55% of total loans and leases at September 30, 2001, compared with \$30.4 million or .18% a year earlier, \$141.8 million or .62% at December 31, 2000 and \$139.1 million or .56% at June 30, 2001. The higher level of such loans at the dates mentioned compared with September 30, 2000 resulted predominately from the inclusion at those respective dates of one-to-four family residential mortgage loans serviced by the Company and repurchased since November 2000 from the Government National Mortgage Association ("GNMA"). The repurchased loans totaled \$99 million, \$100 million and \$87 million as of September 30, 2001, June 30, 2001 and December 31, 2000, respectively. The outstanding principal balances of such loans are fully guaranteed by government agencies. The loans were repurchased to reduce servicing costs associated with these loans, including a requirement to advance to GNMA principal and interest payments that had not been received from individual mortgagors.

Assets acquired in settlement of defaulted loans were \$11.8 million at September 30, 2001, \$8.6 million at September 30, 2000, \$13.6 million at December 31, 2000 and \$11.1 million at June 30, 2001.

A comparative summary of nonperforming assets and certain past due loan data and credit quality ratios is presented in the accompanying table.

#### NONPERFORMING ASSET AND PAST DUE LOAN DATA

Dollars in thousands

|   | 2001 Quarters |         |         | 2000 Quarters |        |
|---|---------------|---------|---------|---------------|--------|
|   | Third         | Second  | First   | Fourth        | Third  |
| Nonaccrual loans  | \$187,851     | 152,885 | 151,927 | 100,951       | 52,640 |
| Renegotiated loans  | 9,641         | 8,739   | 8,864   | 9,688         | 9,159  |
| Total nonperforming loans   | 197,492       | 161,624 | 160,791 | 110,639       | 61,799 |
| Real estate and other assets owned  | 11,755        | 11,106  | 13,099  | 13,619        | 8,631  |
| Total nonperforming assets  | \$209,247     | 172,730 | 173,890 | 124,258       | 70,430 |
| Accruing loans past due 90 days or more*  | \$137,501     | 139,062 | 141,355 | 141,843       | 30,430 |
| Government guaranteed loans included in totals above  |               |         |         |               |        |
| Nonperforming loans   | \$ 11,165     | 11,181  | 9,757   | 8,625         | 7,265  |
| Accruing loans past due 90 days or more   | 110,369       | 111,788 | 112,224 | 102,505       | 11,911 |
| Nonperforming loans to total loans and leases, net of unearned discount                     | .79%          | .65%    | .67%    | .49%          | .36%   |
| Nonperforming assets to total net loans and leases and real estate and other assets owned   | .84%          | .70%    | .72%    | .55%          | .41%   |
| Accruing loans past due 90 days or more to total loans and leases, net of unearned discount | .55%          | .56%    | .58%    | .62%          | .18%   |

\* Primarily residential mortgage loans and consumer loans.

The allowance for credit losses was \$412.7 million, or 1.65% of total loans and leases at September 30, 2001, compared with \$323.3 million or 1.87% a year earlier, \$374.7 million or 1.65% at December 31, 2000 and \$408.5 million or 1.65% at June 30, 2001. The ratio of the allowance for credit losses to nonperforming loans was 209% at the most recent quarter-end, compared with 523% a year earlier, 339% at December 31, 2000 and 253% at June 30, 2001. The level of the allowance reflects management's evaluation of the loan and lease portfolio as of each respective date. Management regularly assesses the adequacy of the allowance by performing an ongoing evaluation of the loan and lease portfolio, including such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans and the value of any collateral. Significant loans are individually analyzed, while other smaller balance loans are evaluated by loan category. Management cautiously evaluated the impact of overall economic conditions on the ability of borrowers to meet repayment obligations when assessing the adequacy of the Company's allowance for credit losses as of September 30, 2001. In addition to the impact of acquisitions, factors considered by management when performing such assessment included, but were not limited to: (i) the concentration of commercial real estate loans in the Company's loan portfolio, particularly the large concentration of loans secured by properties in New York State, in general, and in the New York City metropolitan area, in particular; (ii) the amount of commercial and industrial loans to businesses in areas of New York State outside of the New York City metropolitan area and in Pennsylvania that have historically experienced economic growth rates lower than those experienced by the vast majority of other regions of the country; and (iii) significant growth in loans and leases

to individual consumers. As mentioned earlier, the events of September 11, 2001 did not have a significant direct impact on the Company's financial condition or the results of its operations as of and for the quarter ended September 30, 2001. As previously noted, while a significant portion of the Company's commercial real estate loan portfolio is secured by properties in the New York City metropolitan area, less than 1% of the Company's total loans are secured by properties located in lower Manhattan. In addition, approximately 40% of the metropolitan New York City commercial real estate loans are secured by multi-family residential properties, which have historically been less volatile in value through changing economic conditions. Based upon the results of such review, management believes that the allowance for credit losses at September 30, 2001 was adequate to absorb credit losses inherent in the Company's portfolio as of that date.

### **Other Income**

Other income totaled \$120.2 million in the third quarter of 2001, up from \$76.5 million in the year-earlier quarter and \$117.8 million in the second quarter of 2001. Approximately 60% of the increase from the third quarter of 2000 to the recent quarter was attributable to revenues related to operations and/or market areas associated with the Keystone and Premier acquisitions.

Mortgage banking revenues totaled \$24.8 million in the recent quarter, compared with \$16.0 million in the year-earlier quarter and \$25.0 million in the second quarter of 2001. The higher revenues as compared with the year-earlier quarter were due largely to the impact of lower interest rates on residential mortgage loan origination volume. In particular, mortgage banking revenues in the third quarter of 2001 reflected a generally favorable interest rate environment for borrowers, whereas higher interest rates initiated by the Federal Reserve in the second half of 1999 and first half of 2000 negatively impacted mortgage loan origination volume in the third quarter of 2000. Residential mortgage loans originated for sale to other investors totaled \$1.2 billion during the third quarter of 2001, compared with \$637 million in the year-earlier quarter and \$1.3 billion in the second 2001 quarter. Realized gains from sales of residential mortgage loans and loan servicing rights and unrealized gains from recording residential mortgage loans and related commitments to originate and commitments to sell such loans at fair market value aggregated \$11.8 million in the recently completed quarter, compared with \$12.5 million in the second quarter of 2001. Realized gains from the sale of residential mortgage loans and loan servicing rights were \$6.0 million in the third quarter of 2000. As noted earlier, the Company adopted SFAS No. 133 as of January 1, 2001. SFAS No. 133 requires that changes in the fair value of hedged residential mortgage loans originated for sale and related commitments to sell and commitments to originate residential mortgage loans for sale be recorded in the Company's results of operations. Such unrealized gains totaled approximately \$7.3 million (pre-tax) at September 30, 2001. Similar unrealized gains were approximately \$7.2 million (pre-tax) at June 30, 2001 and, as a result, the net effect of recognizing unrealized gains on 2001's third quarter mortgage banking revenues was not significant. The net effect of SFAS No. 133 on 2001's second quarter mortgage banking revenues was \$1.4 million. Prior to the adoption of SFAS No. 133, residential mortgage loans originated for sale and related commitments to sell loans and to originate loans for sale were recorded in the consolidated balance sheet at the lower of aggregate cost or fair market value. Residential mortgage loan servicing fees were \$11.3 million in the recently completed quarter, up from \$8.4 million in the year-earlier period and \$10.7 million in 2001's second quarter. Residential mortgage loans serviced for others totaled \$9.6 billion at September 30, 2001, \$9.7 billion at each of June 30, 2001 and December 31, 2000, and \$8.9 billion at September 30, 2000. Capitalized servicing assets were \$106 million and \$81 million at September 30, 2001 and 2000, respectively, \$101 million at December 31, 2000 and \$103 million at June 30, 2001. Residential mortgage loans held for sale totaled \$832 million at September 30, 2001, compared with \$264 million at September 30, 2000, \$525 million at December 31, 2000, and \$871 million at June 30, 2001.

Service charges on deposit accounts rose 70% to \$37.0 million in the third quarter of 2001 from \$21.8 million in the similar 2000 period. Fees for services provided to customers in areas formerly served by Keystone contributed approximately 50% of the increase. Service charges on deposit accounts were \$36.3 million in the second quarter of 2001. Trust income totaled \$15.6 million in the recently completed quarter and \$16.3 million in the second quarter of 2001, up from \$9.8 million in 2000's third quarter, largely the result of the Keystone acquisition. Brokerage services income, which includes revenues from the sale of mutual funds and annuities and securities brokerage fees, totaled \$9.5 million in both the second and third quarters of 2001, up from \$7.2 million in the third quarter of 2000. Trading account and foreign exchange activity resulted in gains of \$223 thousand in the recent quarter, compared with gains of \$1.1 million in the corresponding quarter of 2000 and \$1.6 million in 2001's second quarter. Other revenues from operations totaled \$32.8 million in the third quarter of 2001, compared with \$20.7 million in the similar quarter of 2000 and \$27.6 million in the second quarter of 2001. Approximately 60% of the increase from the third quarter of 2000 resulted from activities and/or market areas associated with the Keystone and Premier acquisitions. Included in other revenues from operations is tax-exempt income from bank owned life insurance, which represents increases in the cash surrender value of life insurance policies and benefits received. Such income totaled \$8.6 million in 2001's third quarter, compared with \$6.2 million in the year-earlier quarter and \$8.5 million in 2001's second quarter. The remaining increase in other revenues from operations during the recent quarter was related to merchant discount, credit card and miscellaneous credit-related fees.

Other income totaled \$349.7 million during the first nine months of 2001, up 58% from \$221.9 million in the corresponding 2000 period. Approximately 60% of the increase was attributable to the impact of the acquisitions of Keystone and Premier.

For the nine-month period ended September 30, 2001, mortgage banking revenues aggregated \$75.5 million, up 66% from \$45.5 million in the corresponding 2000 period. The increase in such revenues reflects the lower interest rate environment and the implementation of SFAS No. 133, as mentioned earlier. Realized gains from sales of residential mortgage loans and loan servicing rights and unrealized gains from recording residential mortgage loans and related commitments to originate and commitments to sell such loans at fair market value aggregated \$37.0 million for the first three quarters of 2001. Realized gains from the sale of residential mortgage loans and loan servicing rights were \$18.5 million for the first nine months of 2000. Residential mortgage loan servicing fees were \$32.3 million and \$22.6 million during the first nine months of 2001 and 2000, respectively. Reflecting the impact of the Keystone and Premier acquisitions, service charges on deposit accounts increased to \$105.8 million during the first nine months of 2001, 68% higher than \$63.2 million in the comparable 2000 period. Largely the result of the Keystone acquisition, Trust income rose 61% to \$47.7 million in the first nine months of 2001 from \$29.6 million in the corresponding 2000 period. Brokerage services income increased 18% to \$29.0 million in the first nine months of 2001 from \$24.6 million in the similar 2000 period. Trading account and foreign exchange activity resulted in gains of \$2.6 million and \$1.6 million during the first nine months of 2001 and 2000, respectively. Other revenues from operations increased 52% to \$87.2 million in the first nine months of 2001 from \$57.4 million in the corresponding 2000 period. The higher levels of brokerage services income and other revenues from operations during the first nine months of 2001 compared with the similar 2000 period were largely due to the impact of the Company's recent acquisitions.

#### **Other Expense**

Operating expenses, which exclude amortization of goodwill and core deposit intangible as well as non-recurring merger-related expenses, totaled \$205.2 million in the third quarter of 2001, up from \$136.5 million in the third quarter of 2000 and \$201.9 million in the second quarter of 2001. On the same basis, through the first nine months of 2001, operating expenses totaled \$604.0 million, an increase of 46% from \$414.3 million in the comparable 2000

period. Expenses related to acquired operations significantly contributed to the higher expense levels in the 2001 periods compared with the 2000 periods. However, since the operating systems and support operations related to Keystone and Premier have been combined with those of the Company, the Company's operating expenses cannot be precisely divided between or attributed directly to the acquired operations or to the Company as it existed prior to each transaction. Components of other expense considered to be non-operating in nature and therefore excluded from the operating expense totals noted above were amortization of goodwill and core deposit intangible of \$31.0 million in the third quarter of 2001, \$13.8 million in the year-earlier quarter and \$31.1 million in the second quarter of 2001; and merger-related expenses of \$3.6 million in 2000's third quarter. There were no merger-related expenses in the second and third quarters of 2001. Amortization of goodwill and core deposit intangible totaled \$92.0 million in the first nine months of 2001, up from \$42.3 million in the similar period of 2000. Merger-related expenses were \$8.0 million in the first three quarters of 2001, compared with \$3.6 million in the corresponding 2000 period.

Salaries and employee benefits expense totaled \$109.3 million in the third quarter of 2001, 44% higher than the \$76.1 million incurred in the corresponding 2000 quarter and little changed from \$109.5 million in the second quarter of 2001. For the first nine months of 2001, salaries and employee benefits expense increased 41% to \$324.6 million from \$229.7 million in the similar 2000 period. Excluding the non-operating expense items previously noted, nonpersonnel expense totaled \$95.9 million in the recent quarter, up from \$60.7 million in the third quarter of 2000 and \$92.4 million in the second quarter of 2001. On the same basis, such expenses were \$279.7 million during the first nine months of 2001, an increase of 51% from \$184.8 million during the corresponding 2000 period. The most significant factor contributing to the higher expense levels in 2001 compared with 2000 were expenses associated with the acquired operations of Keystone and Premier.

The Company's cash efficiency ratio, or operating expense (excluding amortization of goodwill and core deposit intangible and merger-related expenses) divided by the sum of taxable-equivalent net interest income and other income (excluding gains from sales of bank investment securities) was 49.0% during the recent quarter, 48.6% during the year-earlier quarter and 49.5% in 2001's second quarter. The cash efficiency ratios for the nine-month periods ended September 30, 2001 and 2000 were 49.7% and 50.2%, respectively.

## Capital

Stockholders' equity at September 30, 2001 was \$3.0 billion or 9.49% of total assets, compared with \$1.9 billion or 8.81% of total assets a year earlier and \$2.7 billion or 9.33% at December 31, 2000. On a per share basis, stockholders' equity was \$31.19 at September 30, 2001, up from \$25.22 a year earlier and \$28.93 at December 31, 2000. Excluding goodwill and core deposit intangible, net of applicable tax effect, tangible equity per share was \$17.85 at September 30, 2001, compared with \$17.52 at September 30, 2000 and \$16.74 at December 31, 2000. To complete the acquisitions of Premier on February 9, 2001 and Keystone on October 6, 2000, M&T issued 2,440,812 and 15,900,292 shares of common stock, respectively, and assumed employee stock options to purchase 224,734 and 1,259,493 shares of M&T common stock, respectively. As a result, at the respective acquisition date, stockholders' equity increased by \$176 million in connection with the Premier acquisition and by \$664 million in connection with the Keystone acquisition.

Included in stockholders' equity at September 30, 2001 was accumulated other comprehensive income, which reflected \$43.2 million, or \$.46 per share, for the net after-tax impact of unrealized gains on investment securities classified as available for sale, compared with unrealized losses of \$32.4 million or \$.42 per share at September 30, 2000 and \$432 thousand or \$.01 per share at December 31, 2000. Such unrealized gains or losses are generally due to changes in interest rates and represent the difference, net of applicable income tax effect, between the estimated fair value and amortized cost of investment securities classified as available for sale. Accumulated comprehensive income at September 30, 2001 also reflected an unrealized loss

of \$407 thousand representing the after-tax effect of the estimated fair value of interest rate swaps designated as cash flow hedges.

Federal regulators generally require banking institutions to maintain “core capital” and “total capital” ratios of at least 4% and 8%, respectively, of risk-adjusted total assets. In addition to the risk-based measures, Federal bank regulators have also implemented a minimum “leverage” ratio guideline of 3% of the quarterly average of total assets. Core capital includes the \$318 million carrying value of trust preferred securities as described in note 6 of Notes to Financial Statements. As of September 30, 2001, total capital also included \$574 million of subordinated notes issued by M&T Bank in prior years.

The Company’s rate of regulatory capital generation, or cash net income (reduced by the impact of nonrecurring merger-related expenses) less dividends paid expressed as an annualized percentage of regulatory “core capital” at the beginning of the period, was 20.31% during the third quarter of 2001, compared with 19.03% in the year-earlier quarter and 20.09% in the second quarter of 2001.

The regulatory capital ratios of the Company and its banking subsidiaries, M&T Bank and M&T Bank, N.A., as of September 30, 2001 are presented in the accompanying table.

#### REGULATORY CAPITAL RATIOS

September 30, 2001

|               | M&T<br>(Consolidated) | M&T<br>Bank | M&T<br>Bank, N.A. |
|---------------|-----------------------|-------------|-------------------|
| Core capital  | 7.27%                 | 7.36%       | 12.52%            |
| Total capital | 10.71%                | 10.84%      | 13.37%            |
| Leverage      | 6.43%                 | 6.54%       | 7.52%             |

On June 25, 2001, M&T announced that it had been authorized by its Board of Directors to purchase up to 3,500,000 of its common shares to be used in connection with the possible future exercise of outstanding stock options. Through September 30, 2001, M&T had repurchased 2,978,302 shares of common stock pursuant to this program at an average cost of \$74.73 per share. During November 2001, M&T completed the program described above, and the repurchases of 3,500,000 common shares were completed at an average cost of \$73.91. A previous stock repurchase program announced in November 1999 was completed during the second quarter of 2001. M&T repurchased 271,790 shares during 2001 pursuant to such program at an average cost of \$74.60 per share. On November 8, 2001, M&T announced that it had been authorized by its Board of Directors to purchase up to 5,000,000 additional common shares.

#### Segment Information

Net income contributed by the Commercial Banking segment in the third quarter of 2001 totaled \$25.6 million up from \$24.7 million in the year-earlier quarter, but down from \$29.0 million in the second quarter of 2001. The major factor for the increase from the year-earlier period was a \$12.1 million increase in net interest income, due to a 31% increase in average loans outstanding, partially offset by a \$10.5 million increase in the provision for credit losses, largely the result of higher net charge-offs. Approximately two-thirds of the increase in loans outstanding was attributable to the Keystone acquisition. A \$5.5 million increase in the provision for credit losses, largely the result of an increase in net charge-offs, offset, in part, by an increase in deposit service charges and credit-related and other fee income contributed to the decrease in net income from the second quarter of 2001. Net income for the nine months ended September 30, 2001 and 2000 was \$83.7 million and \$69.7 million, respectively. The higher net income in 2001 resulted largely from a \$41.4 million increase in net interest income, due to a 33% increase in average loans outstanding. Approximately one-half of the increase in net interest income was attributable to the Keystone acquisition.

Partially offsetting the higher net interest income was a \$19.2 million increase in the provision for credit losses, the result of higher net charge-offs.

The Commercial Real Estate segment earned \$21.6 million in the recent quarter, compared with \$17.3 million in the corresponding quarter of 2000 and \$20.7 million in the second quarter of 2001. The major factor in the improved earnings when compared with the third quarter of 2000 was a \$7.5 million rise in net interest income, the result of a 21% increase in average loan balances. Approximately one-quarter of the increase in this segment's net interest income was attributable to the Keystone acquisition. The increase in net income from the second quarter was also largely due to higher net interest income, the result of higher net interest margin on loan balances outstanding. Net income in the first nine months of 2001 and 2000 was \$62.0 million and \$52.4 million, respectively. Higher net interest income of \$19.0 million, the result of a 21% increase in average loan balances outstanding, was the major factor for the rise in net income. Approximately one-third of the \$19.0 million increase in net interest income was attributable to the Keystone acquisition.

The Discretionary Portfolio segment contributed net income of \$13.2 million in the third quarter of 2001, up from \$9.0 million a year earlier, but below the \$13.7 million earned in the immediately preceding quarter. The increase in net income from the third quarter of 2000 was the result of higher net interest income from loans, culminating from a higher net interest margin and increased balances outstanding, and tax-exempt income earned from bank owned life insurance. The decrease in net income from the second quarter of 2001 was due to lower gains from sales of bank investment securities. Through September 30, 2001, earnings for the Discretionary Portfolio segment totaled \$37.9 million, up from \$25.1 million in the corresponding 2000 period. The increase from 2000 was due, in part, to a \$7.1 million increase in tax-exempt income earned from bank owned life insurance and an \$8.7 million increase in net interest income, the result of a higher net interest margin and increased balances outstanding.

In the third quarter of 2001, the Residential Mortgage Banking segment recorded net income of \$9.7 million, compared with \$2.9 million in the similar 2000 period and \$10.7 million in the second quarter of 2001. Net income for this segment for the nine months ended September 30, 2001 and 2000 was \$29.4 million and \$6.0 million, respectively. The higher levels of earnings in 2001 when compared with the corresponding periods of 2000 were largely due to the effects of higher residential mortgage loan origination volume and loan servicing fees. The previously described adoption of SFAS No. 133 also contributed approximately \$4 million, after applicable income taxes, during the first nine months of 2001. The decrease in the recent quarter's net income as compared with the second quarter of 2001 was due to a \$2.3 million increase to the valuation allowance for capitalized residential mortgage servicing rights.

The Retail Banking segment's earnings were \$50.9 million in the recent quarter, up 18% from \$43.2 million in 2000's comparable period, but down from \$52.6 million in the second quarter of 2001. The leading factors contributing to the increase in net income from the third quarter of 2000 were higher net interest income of \$42.1 million, the result of increases in average loan and deposit balances, and higher deposit service charges of \$11.5 million, offset in part by higher operating expenses of \$45.5 million. The higher deposit and loan balances, deposit service charges, and operating expenses were largely the result of the Keystone and Premier acquisitions. Lower net interest income in the third quarter of 2001 was the primary factor for the decreased earnings compared with the second 2001 quarter. The net contribution of money market savings balances decreased in the third quarter due to market rates dropping more rapidly than the rates the Company pays on these products. During the nine-month period ended September 30, 2001, this segment's net income increased 37% to \$156.2 million from \$114.2 million in the corresponding 2000 period. Higher net interest income and deposit service charges of \$156.2 million and \$33.6 million, respectively, partially offset by higher operating expenses of \$118.2 million, were the leading factors contributing to the significant improvement in net income from 2000. Such

increases in income and expenses were largely the result of the Keystone and Premier acquisitions.

### **Recently Issued Accounting Standards Not Yet Adopted**

In July 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS Nos. 141 and 142. SFAS No. 141, “Business Combinations,” revised accounting standards and disclosure requirements for business combinations. All business combinations are now required to be accounted for using the purchase method of accounting; use of the pooling-of-interests (“pooling”) method of accounting is prohibited. SFAS No. 141 requires that goodwill be initially recognized as an asset in the financial statements and measured as the excess of the cost of an acquired entity over the net difference between amounts assigned to assets acquired and liabilities assumed. The statement also requires that an acquired intangible asset be recognized apart from goodwill if that asset arises from contractual or other legal rights. SFAS No. 141 stipulates that the pooling method of accounting may not be used for business combinations initiated after June 30, 2001. However, prior business combinations accounted for by the pooling method will be “grandfathered.” The provisions of SFAS No. 141 related to the application of the purchase method of accounting (including the separate recognition of identifiable intangible assets) are effective for any business combination completed after June 30, 2001.

SFAS No. 142 “Goodwill and Other Intangible Assets,” revises accounting standards for all purchased intangible assets but not the accounting for internally developed intangible assets. SFAS No. 142 requires that goodwill not be amortized, but rather that it be tested for impairment at the reporting unit level, which is either at the same level or one level below an operating segment. All acquired goodwill should be assigned to reporting units, then tested for impairment no less frequently than annually. Acquired intangible assets (other than goodwill) should be amortized over their useful economic lives and reviewed for impairment in accordance with SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.” However, an acquired intangible asset (other than goodwill) with an indefinite useful economic life should not be amortized until its life is determined to be finite. SFAS No. 142 also stipulates various disclosures and financial statement presentation requirements relating to goodwill and intangible assets. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Early adoption is not permitted for companies with fiscal years beginning prior to March 15, 2001, and the statement must be adopted as of the beginning of a fiscal year. Companies should perform the first impairment test on all goodwill within six months of initially applying the provisions of the statement. The useful economic life of previously recognized intangible assets should be reassessed upon adoption of the statement, remaining amortization periods should be adjusted accordingly, and intangible assets deemed to have an indefinite life should no longer be amortized. Once SFAS No. 142 is adopted by the Company, it is expected that the Company’s results of operations will be significantly impacted due to changes in the accounting for amortization and impairment of goodwill. Information about the Company’s amortization of goodwill is presented herein under the heading “Cash Operating Results.”

In August 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations.” SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged.

On October 3, 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS No. 144 replaces SFAS No.

121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of Accounting Principles Board Opinion No. 30, "Reporting Results of Operations — Reporting the Effects of Disposal of a Segment of a Business," for the disposal of segments of a business. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. Early application is encouraged.

The provisions of SFAS Nos. 143 and 144 are not expected to have a material impact on the Company's consolidated financial statements.

### **Forward-Looking Statements**

Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this quarterly report contain forward-looking statements that are based on current expectations, estimates and projections about the Company's business, management's beliefs and assumptions made by management. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Future Factors") which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Future Factors include changes in interest rates, spreads on earning assets and interest-bearing liabilities, and interest rate sensitivity; credit losses; sources of liquidity; legislation affecting the financial services industry as a whole, and the Company individually; regulatory supervision and oversight, including required capital levels; increasing price and product/service competition by competitors, including new entrants; rapid technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; the mix of products/services; containing costs and expenses; governmental and public policy changes, including environmental regulations; protection and validity of intellectual property rights; reliance on large customers; technological, implementation and cost/financial risks in large, multi-year contracts; the outcome of pending and future litigation and governmental proceedings; continued availability of financing; financial resources in the amounts, at the times and on the terms required to support the Company's future businesses; and material differences in the actual financial results of merger and acquisition activities compared to the Company's initial expectations, including the full realization of anticipated cost savings and revenue enhancements. These are representative of the Future Factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general economic conditions, including interest rate and currency exchange rate fluctuations, and other Future Factors.

M&T BANK CORPORATION AND SUBSIDIARIES

QUARTERLY TRENDS

|   | 2001 Quarters |         |         |         | 2000 Quarters |         |         |
|---|---------------|---------|---------|---------|---------------|---------|---------|
|   | Third         | Second  | First   | Fourth  | Third         | Second  | First   |
| <b>Earnings and dividends</b>                           |               |         |         |         |               |         |         |
| <i>Amounts in thousands, except per share</i>           |               |         |         |         |               |         |         |
| Interest income (taxable-equivalent basis)              | \$526,226     | 544,424 | 552,965 | 548,345 | 424,212       | 409,710 | 401,064 |
| Interest expense  | 227,674       | 252,477 | 276,597 | 286,538 | 219,622       | 208,706 | 203,731 |
| Net interest income                                     | 298,552       | 291,947 | 276,368 | 261,807 | 204,590       | 201,004 | 197,333 |
| Less: provision for credit losses                       | 28,000        | 24,000  | 18,500  | 14,000  | 9,000         | 6,000   | 9,000   |
| Other income  | 120,167       | 117,836 | 111,727 | 102,778 | 76,514        | 73,382  | 71,998  |
| Less: other expense                                     | 236,194       | 233,012 | 234,801 | 234,187 | 153,959       | 155,710 | 150,597 |
| Income before income taxes                              | 154,525       | 152,771 | 134,794 | 116,398 | 118,145       | 112,676 | 109,734 |
| Applicable income taxes                                 | 52,401        | 53,164  | 46,741  | 40,672  | 41,397        | 38,888  | 39,293  |
| Taxable-equivalent adjustment                           | 4,257         | 4,799   | 4,387   | 3,759   | 2,332         | 2,250   | 2,206   |
| Net income  | \$ 97,867     | 94,808  | 83,666  | 71,967  | 74,416        | 71,538  | 68,235  |
| <b>Per common share data</b>                            |               |         |         |         |               |         |         |
| Basic earnings  | \$ 1.02       | .98     | .88     | .78     | .97           | .93     | .89     |
| Diluted earnings  | .98           | .94     | .85     | .76     | .94           | .91     | .86     |
| Cash dividends  | \$ .25        | .25     | .25     | .25     | .125          | .125    | .125    |
| <b>Average common shares outstanding</b>                |               |         |         |         |               |         |         |
| Basic   | 96,115        | 97,125  | 95,427  | 91,987  | 76,748        | 76,631  | 77,112  |
| Diluted   | 99,597        | 100,722 | 98,605  | 95,088  | 79,417        | 78,876  | 79,222  |
| <b>Performance ratios, annualized</b>                   |               |         |         |         |               |         |         |
| <b>Return on</b>  |               |         |         |         |               |         |         |
| Average assets  | 1.25%         | 1.23%   | 1.14%   | 1.01%   | 1.36%         | 1.32%   | 1.22%   |
| Average common stockholders' equity                     | 12.93%        | 12.61%  | 11.84%  | 11.03%  | 15.64%        | 15.75%  | 15.14%  |
| <b>Net interest margin on average earning assets</b>    |               |         |         |         |               |         |         |
| (taxable-equivalent basis)                              | 4.22%         | 4.18%   | 4.16%   | 4.05%   | 4.05%         | 4.05%   | 3.94%   |
| Nonperforming assets to total assets, at end of quarter | .67%          | .55%    | .56%    | .43%    | .32%          | .33%    | .33%    |
| Efficiency ratio (a)                                    | 56.44%        | 57.08%  | 58.45%  | 57.61%  | 53.49%        | 56.75%  | 55.92%  |
| <b>Cash (tangible) operating results (b)</b>            |               |         |         |         |               |         |         |
| Net income (in thousands)                               | \$123,523     | 119,899 | 112,391 | 108,100 | 87,758        | 82,937  | 79,844  |
| Diluted net income per common share                     | 1.24          | 1.19    | 1.14    | 1.14    | 1.11          | 1.05    | 1.00    |
| <b>Annualized return on</b>                             |               |         |         |         |               |         |         |
| Average tangible assets                                 | 1.64%         | 1.62%   | 1.59%   | 1.57%   | 1.64%         | 1.57%   | 1.47%   |
| Average tangible common stockholders' equity            | 28.39%        | 27.99%  | 27.93%  | 28.93%  | 26.98%        | 27.46%  | 26.95%  |
| Efficiency ratio (a)                                    | 49.03%        | 49.45%  | 50.77%  | 50.20%  | 48.57%        | 51.61%  | 50.57%  |
| <b>Balance sheet data</b>                               |               |         |         |         |               |         |         |
| <i>In millions, except per share</i>                    |               |         |         |         |               |         |         |
| <b>Average balances</b>                                 |               |         |         |         |               |         |         |
| Total assets  | \$ 31,119     | 31,017  | 29,878  | 28,487  | 21,823        | 21,851  | 22,438  |
| Earning assets  | 28,099        | 27,993  | 26,937  | 25,746  | 20,098        | 19,976  | 20,147  |
| Investment securities                                   | 3,234         | 3,502   | 3,470   | 3,559   | 2,904         | 2,582   | 1,977   |
| Loans and leases, net of unearned discount              | 24,831        | 24,460  | 23,392  | 22,141  | 17,163        | 17,181  | 17,501  |
| Deposits  | 20,420        | 20,590  | 20,734  | 19,900  | 14,980        | 15,206  | 15,257  |
| Stockholders' equity                                    | 3,003         | 3,015   | 2,866   | 2,596   | 1,893         | 1,826   | 1,813   |
| <b>At end of quarter</b>                                |               |         |         |         |               |         |         |
| Total assets  | \$ 31,139     | 31,202  | 30,925  | 28,949  | 22,009        | 21,746  | 22,762  |
| Earning assets  | 28,118        | 28,200  | 27,895  | 26,089  | 20,143        | 19,893  | 20,389  |
| Investment securities                                   | 3,153         | 3,377   | 3,705   | 3,310   | 2,799         | 2,865   | 2,079   |
| Loans and leases, net of unearned discount              | 24,946        | 24,774  | 24,168  | 22,743  | 17,324        | 16,949  | 17,703  |
| Deposits  | 20,522        | 20,041  | 20,978  | 20,233  | 14,682        | 15,223  | 15,151  |
| Stockholders' equity                                    | 2,956         | 2,987   | 2,992   | 2,700   | 1,940         | 1,852   | 1,832   |
| Equity per common share                                 | 31.19         | 31.00   | 30.84   | 28.93   | 25.22         | 24.18   | 23.83   |
| Tangible equity per common share                        | 17.85         | 17.68   | 17.33   | 16.74   | 17.52         | 16.28   | 15.79   |
| <b>Market price per common share</b>                    |               |         |         |         |               |         |         |
| High  | \$ 82.11      | 79.00   | 69.99   | 68.42   | 52.29         | 47.50   | 45.81   |
| Low   | 63.70         | 66.55   | 59.80   | 46.67   | 44.50         | 39.95   | 35.70   |
| Closing   | 74.00         | 75.50   | 69.90   | 68.00   | 51.00         | 45.00   | 44.65   |

(a) Excludes impact of nonrecurring merger-related expenses and net securities transactions.

(b) Excludes amortization and balances related to goodwill and core deposit intangible and nonrecurring merger-related expenses which, except in the calculation of the efficiency ratio, are net of applicable income tax effects.

M&T BANK CORPORATION AND SUBSIDIARIES

AVERAGE BALANCE SHEETS AND ANNUALIZED TAXABLE-EQUIVALENT RATES

|   | 2001 Third quarter |           |              | 2001 Second quarter |          |              | 2001 First quarter |          |              |
|---|--------------------|-----------|--------------|---------------------|----------|--------------|--------------------|----------|--------------|
|   | Average balance    | Interest  | Average rate | Average balance     | Interest | Average rate | Average balance    | Interest | Average rate |
| <i>Average balance in millions; interest in thousands</i> |                    |           |              |                     |          |              |                    |          |              |
| <b>Assets</b>   |                    |           |              |                     |          |              |                    |          |              |
| Earning assets  |                    |           |              |                     |          |              |                    |          |              |
| Loans and leases, net of unearned discount*               |                    |           |              |                     |          |              |                    |          |              |
| Commercial, financial, etc.                               | \$ 5,340           | \$ 90,615 | 6.73%        | 5,383               | 99,701   | 7.43%        | 5,178              | 107,830  | 8.45%        |
| Real estate — commercial                                  | 9,322              | 183,790   | 7.89         | 9,232               | 186,385  | 8.08         | 8,935              | 188,067  | 8.42         |
| Real estate — consumer                                    | 5,336              | 103,709   | 7.77         | 5,263               | 103,686  | 7.88         | 4,991              | 99,295   | 7.96         |
| Consumer  | 4,833              | 95,543    | 7.84         | 4,582               | 95,509   | 8.36         | 4,288              | 96,603   | 9.14         |
| Total loans and leases, net                               | 24,831             | 473,657   | 7.57         | 24,460              | 485,281  | 7.96         | 23,392             | 491,795  | 8.53         |
| Money-market assets                                       |                    |           |              |                     |          |              |                    |          |              |
| Interest-bearing deposits at banks                        | 4                  | 29        | 2.96         | 4                   | 29       | 3.34         | 3                  | 37       | 4.59         |
| Federal funds sold and agreements to resell securities    | 17                 | 167       | 3.88         | 14                  | 164      | 4.56         | 59                 | 787      | 5.48         |
| Trading account   | 13                 | 105       | 3.17         | 13                  | 95       | 2.86         | 13                 | 116      | 3.54         |
| Total money-market assets                                 | 34                 | 301       | 3.49         | 31                  | 288      | 3.69         | 75                 | 940      | 5.11         |
| Investment securities**                                   |                    |           |              |                     |          |              |                    |          |              |
| U.S. Treasury and federal agencies                        | 1,624              | 26,703    | 6.52         | 1,781               | 29,285   | 6.60         | 1,955              | 33,697   | 6.99         |
| Obligations of states and political subdivisions          | 319                | 5,597     | 7.01         | 380                 | 7,161    | 7.54         | 332                | 6,418    | 7.75         |
| Other   | 1,291              | 19,968    | 6.14         | 1,341               | 22,409   | 6.70         | 1,183              | 20,115   | 6.89         |
| Total investment securities                               | 3,234              | 52,268    | 6.41         | 3,502               | 58,855   | 6.74         | 3,470              | 60,230   | 7.04         |
| <b>Total earning assets</b>                               | 28,099             | 526,226   | 7.43         | 27,993              | 544,424  | 7.80         | 26,937             | 552,965  | 8.33         |
| Allowance for credit losses                               | (416)              |           |              | (406)               |          |              | (391)              |          |              |
| Cash and due from banks                                   | 720                |           |              | 683                 |          |              | 685                |          |              |
| Other assets  | 2,716              |           |              | 2,747               |          |              | 2,647              |          |              |
| Total assets  | \$31,119           |           |              | 31,017              |          |              | 29,878             |          |              |
| <b>Liabilities and stockholders' equity</b>               |                    |           |              |                     |          |              |                    |          |              |
| Interest-bearing liabilities                              |                    |           |              |                     |          |              |                    |          |              |
| Interest-bearing deposits                                 |                    |           |              |                     |          |              |                    |          |              |
| NOW accounts  | \$ 708             | 1,896     | 1.06         | 708                 | 2,206    | 1.25         | 717                | 3,185    | 1.80         |
| Savings deposits  | 7,444              | 32,515    | 1.73         | 7,280               | 34,529   | 1.90         | 6,765              | 38,152   | 2.29         |
| Time deposits   | 8,506              | 104,985   | 4.90         | 9,029               | 120,721  | 5.36         | 9,803              | 140,188  | 5.80         |
| Deposits at foreign office                                | 378                | 3,115     | 3.27         | 304                 | 3,027    | 3.99         | 263                | 3,405    | 5.25         |
| Total interest-bearing deposits                           | 17,036             | 142,511   | 3.32         | 17,321              | 160,483  | 3.72         | 17,548             | 184,930  | 4.27         |
| Short-term borrowings                                     | 3,621              | 32,808    | 3.59         | 3,543               | 38,526   | 4.36         | 2,452              | 34,269   | 5.67         |
| Long-term borrowings                                      | 3,689              | 52,355    | 5.63         | 3,485               | 53,468   | 6.15         | 3,443              | 57,398   | 6.76         |
| <b>Total interest-bearing liabilities</b>                 | 24,346             | 227,674   | 3.71         | 24,349              | 252,477  | 4.16         | 23,443             | 276,597  | 4.78         |
| Noninterest-bearing deposits                              | 3,384              |           |              | 3,269               |          |              | 3,186              |          |              |
| Other liabilities   | 386                |           |              | 384                 |          |              | 383                |          |              |
| Total liabilities   | 28,116             |           |              | 28,002              |          |              | 27,012             |          |              |
| Stockholders' equity                                      | 3,003              |           |              | 3,015               |          |              | 2,866              |          |              |
| Total liabilities and stockholders' equity                | \$31,119           |           |              | 31,017              |          |              | 29,878             |          |              |
| Net interest spread                                       |                    |           | 3.72         |                     |          | 3.64         |                    |          | 3.55         |
| Contribution of interest-free funds                       |                    |           | .50          |                     |          | .54          |                    |          | .61          |
| Net interest income/margin on earning assets              |                    | \$298,552 | 4.22%        |                     | 291,947  | 4.18%        |                    | 276,368  | 4.16%        |

\* Includes nonaccrual loans.

\*\* Includes available for sale securities at amortized cost.

(continued)

M&T BANK CORPORATION AND SUBSIDIARIES

AVERAGE BALANCE SHEETS AND ANNUALIZED TAXABLE-EQUIVALENT RATES (continued)

|   | 2000 Fourth quarter |           |              | 2000 Third quarter |          |              |
|---|---------------------|-----------|--------------|--------------------|----------|--------------|
|   | Average balance     | Interest  | Average rate | Average balance    | Interest | Average rate |
| <i>Average balance in millions; interest in thousands</i> |                     |           |              |                    |          |              |
| <b>Assets</b>   |                     |           |              |                    |          |              |
| Earning assets  |                     |           |              |                    |          |              |
| Loans and leases, net of unearned discount*               |                     |           |              |                    |          |              |
| Commercial, financial, etc.                               | \$ 4,926            | \$111,700 | 9.02%        | 3,978              | 90,407   | 9.04%        |
| Real estate — commercial                                  | 8,572               | 186,371   | 8.70         | 6,867              | 147,932  | 8.62         |
| Real estate — consumer                                    | 4,604               | 93,660    | 8.14         | 3,061              | 61,053   | 7.98         |
| Consumer  | 4,039               | 93,905    | 9.25         | 3,257              | 75,087   | 9.17         |
| Total loans and leases, net                               | 22,141              | 485,636   | 8.73         | 17,163             | 374,479  | 8.68         |
| Money-market assets                                       |                     |           |              |                    |          |              |
| Interest-bearing deposits at banks                        | 18                  | 264       | 5.75         | 1                  | 20       | 4.64         |
| Federal funds sold and agreements to resell securities    | 13                  | 220       | 6.76         | 15                 | 250      | 6.74         |
| Trading account   | 15                  | 125       | 3.34         | 15                 | 155      | 4.05         |
| Total money-market assets                                 | 46                  | 609       | 5.25         | 31                 | 425      | 5.32         |
| Investment securities**                                   |                     |           |              |                    |          |              |
| U.S. Treasury and federal agencies                        | 2,272               | 38,540    | 6.75         | 1,865              | 30,936   | 6.60         |
| Obligations of states and political subdivisions          | 240                 | 4,819     | 8.02         | 80                 | 1,360    | 6.82         |
| Other   | 1,047               | 18,741    | 7.12         | 959                | 17,012   | 7.05         |
| Total investment securities                               | 3,559               | 62,100    | 6.94         | 2,904              | 49,308   | 6.76         |
| <b>Total earning assets</b>                               | 25,746              | 548,345   | 8.47         | 20,098             | 424,212  | 8.40         |
| Allowance for credit losses                               | (374)               |           |              | (322)              |          |              |
| Cash and due from banks                                   | 694                 |           |              | 494                |          |              |
| Other assets  | 2,421               |           |              | 1,553              |          |              |
| Total assets  | \$28,487            |           |              | 21,823             |          |              |
| <b>Liabilities and stockholders' equity</b>               |                     |           |              |                    |          |              |
| Interest-bearing liabilities                              |                     |           |              |                    |          |              |
| Interest-bearing deposits                                 |                     |           |              |                    |          |              |
| NOW accounts  | \$ 695              | 3,692     | 2.11         | 402                | 1,235    | 1.22         |
| Savings deposits  | 6,200               | 39,357    | 2.53         | 5,194              | 30,375   | 2.33         |
| Time deposits   | 9,568               | 144,030   | 5.99         | 6,893              | 103,107  | 5.95         |
| Deposits at foreign office                                | 265                 | 4,040     | 6.06         | 259                | 4,075    | 6.28         |
| Total interest-bearing deposits                           | 16,728              | 191,119   | 4.55         | 12,748             | 138,792  | 4.33         |
| Short-term borrowings                                     | 2,486               | 41,260    | 6.60         | 2,952              | 49,221   | 6.63         |
| Long-term borrowings                                      | 3,025               | 54,159    | 7.12         | 1,763              | 31,609   | 7.13         |
| <b>Total interest-bearing liabilities</b>                 | 22,239              | 286,538   | 5.12         | 17,463             | 219,622  | 5.00         |
| Noninterest-bearing deposits                              | 3,172               |           |              | 2,232              |          |              |
| Other liabilities   | 480                 |           |              | 235                |          |              |
| Total liabilities   | 25,891              |           |              | 19,930             |          |              |
| Stockholders' equity                                      | 2,596               |           |              | 1,893              |          |              |
| Total liabilities and stockholders' equity                | \$28,487            |           |              | 21,823             |          |              |
| Net interest spread                                       |                     |           | 3.35         |                    |          | 3.40         |
| Contribution of interest-free funds                       |                     |           | .70          |                    |          | .65          |
| Net interest income/margin on earning assets              |                     | \$261,807 | 4.05%        |                    | 204,590  | 4.05%        |

\* Includes nonaccrual loans.

\*\* Includes available for sale securities at amortized cost.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Incorporated by reference to the discussion contained under the caption “Taxable-equivalent Net Interest Income” in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

M&T and its subsidiaries are subject in the normal course of business to various pending and threatened legal proceedings in which claims for monetary damages are asserted. Management, after consultation with legal counsel, does not anticipate that the aggregate ultimate liability, if any, arising out of litigation pending against M&T or its subsidiaries will be material to M&T’s consolidated financial position, but at the present time is not in a position to determine whether such litigation will have a material adverse effect on M&T’s consolidated results of operations in any future reporting period.

**Item 2. Changes in Securities and Use of Proceeds.**

(Not applicable.)

**Item 3. Defaults Upon Senior Securities.**

(Not applicable.)

**Item 4. Submission of Matters to a Vote of Security Holders.**

(None)

**Item 5. Other Information.**

(None)

**Item 6. Exhibits and Reports on Form 8-K.**

(a) There are no exhibits filed as a part of this report.

(b) Reports on Form 8-K. M&T did not file any Current Reports on Form 8-K during the fiscal quarter ended September 30, 2001.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 14, 2001

M&T BANK CORPORATION

By: /s/ Michael P. Pinto

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Michael P. Pinto  
Executive Vice President  
and Chief Financial Officer